IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "Offering Circular"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT 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 LAWS OF OTHER JURISDICTIONS.

ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES SET FORTH IN THE OFFERING CIRCULAR. 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 THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described herein, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to J.P. Morgan Securities plc and Nomura Financial Investment (Korea) Co., Ltd. (collectively, the "Joint Global Coordinators") that your stated electronic mail address to which this e-mail has been delivered is not located in the United States and that you consent to delivery of such 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 authorized to, deliver the Offering Circular to any other person.

The materials relating to the issue of the securities described herein 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 issue of the securities described herein be made by a licensed broker or dealer and the Joint Global Coordinators or any affiliate of the Joint Global Coordinators is a licensed broker or dealer in that jurisdiction, the issue of the securities described herein shall be deemed to be made by the Joint Global Coordinators or such affiliate on behalf of the issuer in such jurisdiction.

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 and consequently none of the Joint Global Coordinators, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Global Coordinators.

You should not reply by e-mail to this distribution, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Offering Circular

Heungkuk Life Insurance Co., Ltd.

(Incorporated with limited liability under the laws of the Republic of Korea.)

U.S.$500,000,000 4.475% Subordinated Capital Securities

The U.S.$500,000,000 4.475% Subordinated Capital Securities (the "Securities") are issued by Heungkuk Life Insurance Co., Ltd (the "Issuer"). The Securities confer a right to receive distributions (each a "Distribution") at the following rates: (i) in respect of the period from, and including, November 9, 2017 (the "Issue Date") to, but excluding, November 9, 2022 (the "Initial Reset Date," and such period, the "Initial Rate Period"), 4.475% per annum (the "Initial Distribution Rate"); (ii) in respect of the period from, and including, the Initial Reset Date to, but excluding, November 9, 2027 (the "Step-Up Date"), a rate per annum equal to the sum of the Treasury Rate plus the Initial Spread (the "Initial Reset Distribution Rate"); and (iii) in respect of the period from, and including, the Step-Up Date or each Reset Date thereafter, as the case may be, to, but excluding, the immediately following Reset Date, the applicable Reset Step-Up Distribution Rate. Terms relating to the Securities not otherwise defined have the meanings given to them in "Terms and Conditions of the Securities." Subject to the provisions of the Securities relating to the mandatory cancellation of Distributions (see "Terms and Conditions of the Securities — Distribution — Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event"), Distributions shall be payable on the Securities semi-annually in arrear on May 9 and November 9 in each year (each a "Distribution Payment Date") with the first Distribution Payment Date falling on May 9, 2018.

Subject to the provisions of the Securities relating to certain events pursuant to which payment of Distributions shall become compulsory (see "Terms and Conditions of the Securities — Distribution — Optional cancellation of Distributions"), the Issuer may, at its sole discretion, elect to cancel, in whole but not in part, payment of any Distribution otherwise scheduled to be paid on a Distribution Payment Date by giving notice to the Securityholders and the Fiscal Agent at least seven Business Days prior to such Distribution Payment Date. Distributions are non-cumulative. If the Issuer elects not to pay a Distribution or is required not to pay a Distribution, such Distribution will not be due and payable on the relevant Distribution Payment Date. If any Distribution is not paid on a Distribution Payment Date pursuant to and in accordance with the provisions of the Securities, the right of Securityholders to receive such Distribution not paid will be lost, and the Issuer will have no obligation to pay such Distribution, whether or not any amount of Distribution is paid for any future Distribution Period. See "Terms and Conditions of the Securities."

Unless previously redeemed or purchased and cancelled as described below, the Issuer may at its option redeem the Securities, in whole but not in part, at their outstanding principal amount on November 9, 2047 (the "Initial Issuer Redemption Date") and on each date that falls 30, or a multiple of 30, calendar years after the Initial Issuer Redemption Date (each such date together with the Initial Issuer Redemption Date, an "Issuer Redemption Date"); provided that, if the Securities are not redeemed at the option of the Issuer on any Issuer Redemption Date, the Securities will automatically be extended for 30 years from such Issuer Redemption Date. The Issuer may, on the Initial Reset Date and on each Distribution Payment Date thereafter, upon giving a notice of redemption, redeem the Securities, in whole but not in part, at a redemption price equal to the principal amount of the Securities plus any accrued but unpaid Distribution (other than any Distribution which has been cancelled) (the "Optional Redemption Price"); provided that, such redemption shall be subject to (i) the prior approval of the Financial Supervisory Service (the "FSS") or other relevant regulatory authorities of Korea (if then required) and (ii) satisfaction of any other conditions as required under the Regulation on Supervision of Insurance Business (as amended or modified from time to time), the Detailed Enforcement Regulations on Insurance Business Supervision (as amended or modified from time to time) or other successive regulations in effect at the time of such redemption ((i) and (ii) collectively, the "Optional Redemption and Purchase Conditions"). The Optional Redemption and Purchase Conditions applicable as of the Issue Date are as follows: (a) such redemption may not occur within five years of the Issue Date; and (b) either (i) immediately after such redemption (which shall have been decided by the Issuer at its sole discretion and approved by the FSS), the Issuer's Solvency Margin Ratio shall be equal to or greater than 150%; or (ii) (A) the Issuer's Solvency Margin Ratio shall be equal to or greater than 100%; (B) prior to such redemption, the Issuer issues or incurs qualifying financing via instruments with stronger capital characteristics (such as shares or instruments with a maturity longer than the remaining maturity of the Securities and with more favorable financing terms, including but not limited to a lower interest rate) in an amount not less than the aggregate principal amount of the Securities being redeemed, (C) the Distribution Rate of the Securities shall have been recognized by the FSS as significantly unfavorable to the Issuer due to changes in market conditions since the Issue Date, and (D) the Issuer shall have obtained prior approval from the FSS for such redemption. In addition, subject to the satisfaction of the Optional Redemption and Purchase Conditions, the Securities may be redeemed (in whole but not in part) at the option of the Issuer upon the occurrence of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event at the Optional Redemption Price. No notice of redemption with respect to a Gross-Up Event, Regulatory Event, Accounting Event or a Tax Deductibility Event shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay an Additional Amount if a payment in respect of the Securities were then payable (in the case of a Gross-Up Event) or the event is otherwise due to take effect (in the case of a Regulatory Event, Accounting Event or Tax Deductibility Event). See "Terms and Conditions of the Securities — Redemption and Purchase."

The Securities are expected to be rated "Baa3" by Moody's Investor Services, Inc. ("Moody's") and "BBB-" by Fitch Ratings, Inc. ("Fitch"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Securities on the SGX-ST. The SGX-ST assumes no responsibility for the accuracy of any of the statements made, opinions expressed or reports contained in this offering circular. Approval in-principle from, admission to the Official List of, and listing and quotation of the Securities on, the SGX-ST are not to be taken as an indication of the merits of the Securities or the Issuer. There is currently no public market for the Securities. For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).

The Securities will be issued in registered form in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Securities will be initially represented by beneficial interests in a global certificate in registered form which will be registered in the name of a nominee of, and will be deposited on or about the Issue Date with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream").

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 other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on resale or transfer, see "Subscription and Sale."

See "Risk Factors" beginning on page 20 to read about certain risk factors you should consider before investing in the Securities.

Issue Price: 100.0%

Joint Global Coordinators and Joint Bookrunners

J.P. Morgan **Nomura**

The date of this offering circular is November 2, 2017.

TABLE OF CONTENTS

You should rely only on the information contained in this offering circular. Neither we nor any of the Underwriters (as defined in "Subscription and Sale") has authorized anyone to provide you with information that is different and not contained in this offering circular. This document may only be used where it is legal to offer and sell the Securities. The information in this document may only be accurate as of the date of this offering circular.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of the Underwriters as to the accuracy or completeness of the information contained in this offering circular or any other information provided by us in connection with the offering of the Securities (the "Offering") or the Securities or their distribution or for any other statement made or purported to be made by any Underwriter or on its behalf in connection with us or the Offering. Each Underwriter accordingly disclaims any and all responsibility or liability whether arising in tort or contract or otherwise which it might otherwise have in respect of the information contained in this offering circular, any other information provided by us in connection with the Offering or any other such statement.

No person is or has been authorized by us to give any information or to make any representation not contained in or not consistent with this offering circular and, if given or made, such information or representation must not be relied upon as having been authorized by us or any of the Underwriters.

This offering circular has been prepared by us solely for use in connection with the proposed Offering described in this offering circular. We have not authorized its use for any other purpose. This offering circular may not be copied or reproduced in whole or in part. This offering circular may not be distributed, nor may its contents be disclosed, except to the prospective investors to whom it is provided. By accepting delivery of this offering circular, each investor agrees to all of these restrictions.

Neither this offering circular nor any other information supplied in connection with the Offering or any Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by us or any of the Underwriters that any recipient of this offering circular or any other information supplied in connection with the Offering or any Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of our financial condition and affairs and its own appraisal of our creditworthiness and the terms of the Securities, including the merits and risks involved. Neither the delivery of this offering circular nor the offering, sale or delivery of any Securities shall in any circumstances imply that the information contained herein concerning us is correct at any time subsequent to the date hereof. The Underwriters assume no responsibility for the accuracy or completeness of any of the information contained in this offering circular or any other information (financial, legal or otherwise) provided by us in connection with the issue of the Securities or their distribution.

This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any Securities 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 the Securities may be restricted by law in certain jurisdictions. We and the Underwriters do not represent that this offering circular may be lawfully distributed, or that any Securities 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 us or the Underwriters that would permit a public offering of any Securities or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Securities 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 Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this offering circular and the offering and sale of the Securities. In particular, there are restrictions on the distribution of this offering circular and the offer or sale of Securities in the United States, United Kingdom, Hong Kong, Singapore and Korea. See "Subscription and Sale."

The Securities have not been, and will not be, registered under the Securities Act. The Securities are being offered in reliance on an exemption from registration under the Securities Act for offers and sales of securities outside the United States. The Securities have not been approved or disapproved by the U.S. 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.

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

Neither we nor any of the Underwriters is making any representation to any purchaser of the Securities regarding the legality of an investment in the Securities by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Securities.

We reserve the right to withdraw this offering of the Securities at any time. We and the Underwriters also reserve the right to reject any offer to purchase the Securities in whole or in part for any reason and to allocate to any prospective investor less than the full amount of Securities sought by such investor.

In connection with the Offering, any Underwriter (or person(s) on acting on its behalf) may, individually or collectively, subject to all applicable laws, rules and regulations, over-allot Securities or effect transactions that stabilize or maintain the market price of the Securities at a higher level than the Securities might otherwise achieve in the open market for a limited period of time after the issue date. However, stabilization may not necessarily occur. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period. For a description of these activities, see "Subscription and Sale."

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA, AS AMENDED. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD, DELIVERED OR TRANSFERRED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA ("KOREA") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY KOREAN RESIDENT (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA AND THE ENFORCEMENT DECREE THEREOF) FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE SECURITIES, EXCEPT (I) IF ARTICLE 2-2-2, PARAGRAPH 2, ITEM 3 OF THE REGULATION ON THE ISSUANCE OF SECURITIES AND PUBLIC DISCLOSURE, ETC. OF KOREA IS APPLICABLE, THE SECURITIES MAY BE OFFERED, SOLD, DELIVERED OR TRANSFERRED TO, BETWEEN OR AMONG KOREAN QUALIFIED INSTITUTIONAL INVESTORS AS SPECIFIED IN ARTICLE 2-2, PARAGRAPH 2, ITEM 4 OF THE ABOVE-MENTIONED REGULATION, PROVIDED THAT AT LEAST 80% OF THE AGGREGATE PRINCIPAL AMOUNT OF THE SECURITIES SHALL BE ALLOCATED TO NON-RESIDENTS OF KOREA (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA AND THE ENFORCEMENT DECREE THEREOF)

(WHICH APPLIES ONLY TO THE SECURITIES ACQUIRED FROM THE ISSUER OR ANY UNDERWRITER AT THE TIME OF ISSUANCE OF THE SECURITIES), AND THE OTHER REQUIREMENTS AS SET FORTH IN ARTICLE 2-2-2, PARAGRAPH 2, ITEM 3 ABOVE ARE SATISFIED, OR (II) AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

CERTAIN DEFINED TERMS AND CONVENTIONS

Market and statistical data and certain industry forecasts used throughout this offering circular were obtained from internal surveys, market research, publicly available information and industry publications published by various sources, including the Korea Life Insurance Association (the "KLIA"), the Korea Insurance Development Institute (the "KIDI"), the General Insurance Association of Korea (the "GIAK"), Swiss Re Sigma, the National Statistics Office of Korea, the Organization for Economic Cooperation and Development (the "OECD"), the International Monetary Fund, the World Bank and other third party sources, that we believe are reliable. Such information has been accurately reproduced herein and, as far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither we nor any of the Underwriters makes any representation as to the accuracy or completeness of this information. You should not unduly rely on such market and statistical data and industry forecasts.

In this offering circular, unless otherwise specified or the context otherwise requires:

- "we," "us," "our," "ourselves" or "our company" refers to Heungkuk Life Insurance Co., Ltd. and its consolidated subsidiaries;
- "Corporate Governance Act" refers to the Act on Corporate Governance of Financial Companies;
- "FSC" refers to the Financial Services Commission of Korea;
- "FSCMA" refers to the Financial Investment Services and Capital Markets Act of Korea;
- "FSS" refers to the Financial Supervisory Service of Korea;
- "first year premiums" refers to the amount of premiums received during the first year of a policy, which amount is recognized in a specified year or period in respect of policies sold during such year or period;
- "first year regular payment premiums" refers to the amount of non-single payment premiums, principally monthly premiums and including quarterly, semi-annual and annual premiums, recognized in a specified year or period in respect of policies sold during such year or period;
- "first year single payment premiums" refers to the amount of single payment premiums recognized in a specified year or period in respect of policies sold during such year or period;
- "general agencies" refers to large-sized independent insurance sales agencies;
- "Government" refers to the government of the Republic of Korea;
- "gross premiums" refers to the amount of premiums recognized in a specified year or period in respect of policies in force during such year or period, including premiums for separate accounts;
- "Heungkuk Fire & Marine" refers to Heungkuk Fire & Marine Insurance Co., Ltd., our consolidated subsidiary, on a standalone basis, unless the context requires otherwise;

- “Issuer” refers to Heungkuk Life Insurance Co., Ltd. on a standalone basis;
- “Korea” refers to the Republic of Korea;
- “U.S.” or the “United States” refers to the United States of America;
- “U.S. dollars,” “US$” or “$” refers to the lawful currency of the United States of America; and
- “Won” or “₩” refers to the lawful currency of the Republic of Korea.

For the reader’s convenience, certain Won amounts in this offering circular have been translated into U.S. dollars at the market average exchange rate, announced by Seoul Money Brokerage Services, Ltd. in Seoul, between Won and U.S. dollars, rounded to the nearest tenth of one Won (the “Market Average Exchange Rate”). Unless otherwise stated, the translations of Won into U.S. dollars in this offering circular have been made at the Market Average Exchange Rate in effect on June 30, 2017, which was Won 1,139.6 to US$1.00. For historical information regarding the rate of exchange between the Won and U.S. dollars, see “Exchange Rates.” No representation is made that the Won or U.S. dollar amounts referred to in this offering circular could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. On November 1, 2017, the Market Average Exchange Rate in effect was Won 1,121.2 to US$1.00.

Any discrepancies in the tables included herein between totals and sums of the amounts listed are due to rounding.

The information on the Issuer’s website, https://www.heungkuklife.co.kr, or the website of Heungkuk Fire & Marine, https://www.heungkukfire.co.kr, or any website directly or indirectly linked to either of such websites does not form a part of this offering circular and should not be relied upon.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of and for the years ended December 31, 2014, 2015 and 2016 included in this offering circular have been prepared in accordance with the Korean International Financial Reporting Standards (“K-IFRS”), and our unaudited condensed consolidated interim financial statements as of June 30, 2017 and for the three and six months ended June 30, 2016 and 2017 included in this offering circular have been prepared in accordance with K-IFRS No. 1034, “Interim Financial Reporting,” which differ in certain significant respects from generally accepted accounting principles in other countries. Certain financial information in this offering circular is presented on a standalone basis, which is based on the separate financial statements of the Issuer or Heungkuk Fire & Marine.

SUMMARY

We are one of the major mid-sized life insurance companies in Korea, offering a wide range of life insurance and investment products to retail customers as well as retirement pension plans and group life insurance products to institutional customers through a variety of distribution and marketing channels. We also engage in the property and casualty insurance business in Korea through our consolidated subsidiary, Heungkuk Fire & Marine, in which we hold a 59.6% equity interest. Our business operations consist primarily of the following:

- **Heungkuk Life Insurance Co., Ltd.**. The Issuer develops and distributes a broad range of individual and group life insurance products that provide protection against a policyholder's death, disability, illness, accident or other events, as well as annuities and savings insurance products. The Issuer also offers variable insurance products and retirement pension plans to address the growing demand for greater investment choices among Korean customers. Leveraging the most longstanding brand name in the Korean life insurance industry and its wealth of industry experience and expertise, the Issuer seeks to offer life insurance products and services that cater to individuals' specific needs at various stages of their lives, based on in-depth analyses of changes in demographic, mortality and investment trends. As of June 30, 2017, the Issuer had approximately 3.0 million life insurance policies in force and approximately 1.7 million individual policyholders.
- **Heungkuk Fire & Marine Insurance Co., Ltd**. As a mid-sized property and casualty insurance company, Heungkuk Fire & Marine develops and distributes a wide spectrum of non-life insurance products, including long-term insurance products that provide protection against losses arising from a policyholder's illness, injuries, property losses or other events while also featuring a savings component. Heungkuk Fire & Marine also offers automobile insurance and other general property and casualty insurance products. As of June 30, 2017, Heungkuk Fire & Marine had approximately 4.6 million property and casualty insurance policies in force and approximately 2.8 million individual policyholders.

We seek to pursue a profit and quality-oriented growth strategy with an emphasis on selling higher-margin life insurance, variable insurance and long-term property and casualty insurance products while pursuing cost efficiencies. We are also strategically focused on product development with the objective of increasing the insurance coverage provided to our customers and attracting new business by introducing new products that are aimed at meeting the evolving investment and protection needs of the rapidly aging Korean population, as well as changes in the regulatory environment.

Taking advantage of our well-recognized "Heungkuk" brand, we have solidified our position in the highly competitive Korean life insurance and property and casualty insurance markets through a multi-channel distribution and marketing platform led by our extensive bancassurance and agency channels. We have longstanding bancassurance relationships with Korea's leading commercial banks, securities companies and savings banks, as well as marketing arrangements with a variety of general and individual agencies. Our distribution and marketing platform also includes a nationwide network of approximately 2,335 tied agents engaged by the Issuer and 3,882 tied agents engaged by Heungkuk Fire & Marine as of June 30, 2017, who are our exclusive sales agents, as well as a direct marketing channel. We plan to continue enhancing the efficiency and productivity of our distribution and marketing channels to optimize their capabilities based on customer segmentation and targeted product offerings and to explore opportunities for generating marketing synergies between our life insurance and property and casualty insurance businesses.

We were incorporated in 1950 and were acquired by the Taekwang Group in 1973. In 2006, we became the controlling shareholder of Ssangyong Fire & Marine Insurance Co., Ltd., which was incorporated in 1948, and subsequently changed its name to Heungkuk Fire & Marine in 2009. Heungkuk Fire & Marine's common shares are publicly listed and traded on the KRX KOSPI Market of the Korea Exchange. We remain a member of the Taekwang Group, which currently consists of 26 companies, three of which are listed on the KRX KOSPI Market of the Korea Exchange, and operates primarily in the fiber and petrochemical, finance and media sectors. See "Taekwang Group."

Our operating revenues were Won 8,285 billion in 2014, Won 10,049 billion in 2015 and Won 10,187 billion in 2016, and Won 5,154 billion in the first half of 2016 and Won 5,093 billion in the first half of 2017. We reported profit for the period of Won 111 billion in 2014, Won 107 billion in 2015 and Won 68 billion in 2016, and Won 39 billion in the first half of 2016 and Won 119 billion in the first half of 2017. We had total assets of Won 37,012 billion and total equity of Won 1,765 billion as of June 30, 2017.

Our headquarters are located at 68, Saemunan-ro, Jongro-gu, Seoul 03184, Korea. The Issuer's website is http://www.heungkuklife.co.kr, and Heungkuk Fire & Marine's website is http://www.heungkukfire.co.kr.

Recent Developments

Although our results of operations for the nine-month period ended September 30, 2017 have not yet been reviewed by our independent auditors and are therefore preliminary and subject to change, we believe that, on a consolidated basis, our profit for the three-month period ended September 30, 2017 decreased significantly compared to our profit for the three-month period ended June 30, 2017 and our profit for the three-month period ended September 30, 2016, primarily as a result of an increase in insurance claims paid and in loss on valuation of derivatives, as well as a decrease in gain on valuation and disposal of securities (principally as compared to the three-month period ended June 30, 2017). We also believe that, on a standalone basis, the Issuer recorded a net loss for the three-month period ended September 30, 2017. The increase in insurance claims paid was primarily due to an increase in claims paid by Heungkuk Fire & Marine and, to a lesser extent, the Issuer, resulting mainly from a seasonal increase in claims during the third quarter of 2017 compared to the second quarter of 2017 (including as a result of the announcement by the Government in August 2017 of its plans to make changes to the Korean national health insurance system, which focused public attention on health and medical insurance and induced policyholders generally to file health and medical insurance claims earlier than they would have otherwise), as well as a decrease in the number of public holidays (during which claims are not processed) in the third quarter of 2017 compared to the third quarter of 2016. The increase in loss on valuation of derivatives resulted principally from an increase in credit default swap spreads on Government bonds mainly due to heightened tensions with North Korea in the third quarter of 2017, which led to valuation losses on derivative instruments held by us for hedging purposes. The decrease in gain on valuation and disposal of securities was primarily due to a decrease in the amount of debt securities in our investment portfolio that we disposed of in the third quarter of 2017 compared to the second quarter of 2017 (and, to a lesser extent, the third quarter of 2016), mainly as a result of our judgment that market conditions in the third quarter of 2017 were unfavorable for purposes of seeking to maximize gains from such disposals pursuant to our investment policies.

However, we believe that our profit on a consolidated basis for the nine-month period ended September 30, 2017 increased compared to our profit for the nine-month period ended September 30, 2016.

The Offering

The following is a brief summary of certain terms of the Offering. For a more detailed description of the terms of the Securities, see "Terms and Conditions of the Securities." Capitalized terms used herein and not defined have the meanings given to them in "Terms and Conditions of the Securities."

The Issuer	Heungkuk Life Insurance Co., Ltd.
Securities	U.S.$500,000,000 4.475% Subordinated Capital Securities. The Securities have not been registered with the U.S. Securities and Exchange Commission (the "SEC"), and are being offered and sold outside the United States in reliance on Regulation S.
Joint Global Coordinators and Joint Bookrunners	J.P. Morgan Securities plc and Nomura Financial Investment (Korea) Co., Ltd.
Issue Date	November 9, 2017.
Initial Issuer Redemption Date	November 9, 2047.
Issuer Redemption Date	Unless previously redeemed or purchased and cancelled, the Issuer may at its option redeem the Securities, in whole but not in part, at their outstanding principal amount on the Initial Issuer Redemption Date and on each date that falls 30, or a multiple of 30, calendar years after the Initial Issuer Redemption Date (each such date together with the Initial Issuer Redemption Date, an "Issuer Redemption Date"); *provided* that, if the Securities are not redeemed at the option of the Issuer on any Issuer Redemption Date, the tenor of the Securities will automatically be extended for 30 years from such Issuer Redemption Date; *provided* further that, if any Issuer Redemption Date would fall on a date that is not a Business Day, it will be postponed to the next Business Day.
Status of the Securities	The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves, *pari passu* with any Parity Obligations of the Issuer and in priority to the claims of holders of Junior Obligations of the Issuer. The rights and claims of the Securityholders are subordinated in the manner described below. The Securityholders will not have the benefit of any security interest. In the event of the Winding-Up of the Issuer, the rights and claims of the Securityholders to payment of principal and any Distribution under the Securities shall rank senior to, and in priority to, the claims of all holders of any present or future Junior Obligations of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer (including, but not limited to, dated subordinated creditors of the Issuer), other than the claims of holders of Parity Obligations of the Issuer. The Securities will rank *pari passu* with Parity Obligations of the Issuer.

"Junior Obligations" means (i) any class of the Issuer's share capital (including but not limited to any preference shares) and (ii) any other obligations that rank or are expressed to rank, by their terms or by operation of law, junior to the Securities.

"Parity Obligations" means any instrument or security issued, entered into or guaranteed by the Issuer (other than the Securities) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities.

Distributions . . . . From and including the Issue Date, subject to Conditions 4.6 (*Optional cancellation of Distributions*) and 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*), each Security shall entitle the Securityholder thereof to receive Distributions at the Distribution Rate applicable to the relevant Distribution Period.

Distribution Payment Dates . . . . Subject to Condition 4.7, Distributions shall be payable on the Securities semi-annually in arrear on May 9 and November 9 in each year (each, a "Distribution Payment Date"), with the first Distribution Payment Date falling on May 9, 2018 in respect of the period from, and including, the Issue Date to, but excluding, such first Distribution Payment Date.

Distribution Rate . . . . The Distribution Rate for the Securities applicable to the relevant Distribution Period shall be:

(a) in respect of the period from, and including, the Issue Date to, but excluding, November 9, 2022 (the "Initial Reset Date," and such period, the "Initial Rate Period"), 4.475% per annum (the "Initial Distribution Rate");

(b) in respect of the period from, and including, the Initial Reset Date to, but excluding, November 9, 2027 (the "Step-Up Date"), a rate per annum equal to the sum of the Treasury Rate plus the Initial Spread (the "Initial Reset Distribution Rate"); and

(c) in respect of the period from, and including, the Step-Up Date or each Reset Date thereafter, as the case may be, to, but excluding, the immediately following Reset Date, the applicable Reset Step-Up Distribution Rate.

Initial Spread . . . . 2.472% per annum.

Optional Cancellation of Distributions . . . . Unless a Compulsory Distribution Payment Event has occurred, the Issuer may elect to cancel, in whole but not in part, payment of any Distribution otherwise scheduled to be paid on a Distribution Payment Date by giving notice to the Securityholders and the Fiscal Agent, as set forth in Condition 4.6 (*Optional cancellation of Distributions*).

A "Compulsory Distribution Payment Event" will occur if, during the 12-month period ending on the tenth Business Day prior to such Distribution Payment Date, the Issuer has declared, paid or made any dividend, distribution or other payment in respect of, or redeemed or purchased, any Junior Obligations or Parity Obligations (other than any such payment, redemption or purchase that is mandatory pursuant to the terms thereof).

Mandatory Cancellation of Distributions . . . . Notwithstanding that a notice of an optional cancellation may not have been given, if a Capital Deficiency Event subsists as at the tenth Business Day prior to any Distribution Payment Date, any Distribution which has accrued for the relevant Distribution Period will not be due or payable on such Distribution Payment Date and payment of such Distribution will be mandatorily cancelled, in whole but not in part. The Issuer will give notice of the cancellation of a Distribution to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, as further described in Condition 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*).

"Capital Deficiency Event" means, as at the relevant date, (x) the Issuer being designated as an "insolvent financial institution" under subparagraph 2 of Article 2 of the Act on the Structural Improvement of the Financial Industry, as amended or modified from time to time, or (y) either a "management improvement recommendation," a "management improvement requirement" or a "management improvement order" has been issued by the Financial Services Commission of Korea (the "FSC") under the Articles 7-17, 7-18 and 7-19, respectively, or an "emergency measure" is imposed by the FSC under the Article 7-43, of the Regulation on Supervision of Insurance Business (as amended or modified from time to time, the "RSIB").

Distributions Non-Cumulative . . . . Distributions are non-cumulative. If the Issuer elects not to pay a Distribution in accordance with Condition 4.6 (*Optional cancellation of Distributions*), or is required not to pay a Distribution in accordance with Condition 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*), such Distribution will not be due and payable on the relevant Distribution Payment Date and shall not accumulate or be payable at any time thereafter. If any Distribution is not paid on a Distribution Payment Date pursuant to and in accordance with Condition 4.6 or 4.7, the right of Securityholders to receive such Distribution not paid will be lost, and the Issuer will have no obligation to pay such Distribution, whether or not any amount of Distribution is paid for any future Distribution Period and the failure to pay such Distribution shall not constitute a default by the Issuer for any purpose.

Restrictions in the Case of a Payment Limitation . . . . If, on any Distribution Payment Date, payment of a Distribution scheduled to be paid is not made in full pursuant to Condition 4.6

(*Optional cancellation of Distributions*) or 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*) or otherwise, the Issuer shall not:

(a) declare, pay or make any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is declared, paid or made on, any of its Junior Obligations or its Parity Obligations save that such restriction shall not apply to payments in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration on a discretionary basis any of its Junior Obligations or its Parity Obligations (except, in relation to Parity Obligations, where such redemption, reduction cancellation or buy-back is made on a pro rata basis with a pro rata purchase by the Issuer of Securities), save that such restriction shall not apply to an exchange of any of its Parity Obligations for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants,

in each case, until the next following Distribution Payment Date on which the Issuer pays in full the Distribution scheduled to be paid on such Distribution Payment Date.

No Claim by Holders for Distributions .... No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to Condition 4.6 (*Optional cancellation of Distributions*) or 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*). Accordingly, such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

Redemption at the Option of the Issuer .... Subject to the satisfaction of the Optional Redemption and Purchase Conditions, the Issuer may, on the Initial Reset Date and each Distribution Payment Date thereafter, upon giving a notice of redemption, redeem the Securities, in whole but not in part, at a redemption price equal to the principal amount of the Securities plus any accrued but unpaid Distributions to (but excluding) the date of redemption (other than any Distribution which has been cancelled pursuant to the provisions set forth in Condition 4.6 or 4.7) (the "Optional Redemption Price"), as set forth in Condition 6.2 (*Optional redemption*).

Redemption for Gross-up Event ..... Subject to the satisfaction of the Optional Redemption and Purchase Conditions, if a Gross-Up Event has occurred and is continuing, the

	Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price. "Gross-Up Event" means on the occasion of the next payment due under the Securities, the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a relevant jurisdiction or any political subdivision of, or any authority in, or of, a relevant jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) on or after the Issue Date; and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.
Redemption for Regulatory Event	Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Regulatory Event, the Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price. "Regulatory Event" means that, where the Securities have been recognised as regulatory capital of the Issuer in the FSC's calculation of the Issuer's regulatory capital ratios and, at a subsequent time, due to a change of law, regulation or interpretation thereof, which change becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) after the Issue Date, there is more than an insubstantial risk that the Securities would not, or would no longer, be eligible, in whole or in part, to be included within the regulatory capital ratios of the Issuer.
Redemption for Accounting Event . . .	Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of an Accounting Event, the Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price. "Accounting Event" means that, as a result of any changes or amendments to, or change in the interpretation of, relevant accounting standards, the full principal amount of the Securities must not or must no longer be recorded as "equity" in the Issuer's financial statements prepared in accordance with such relevant accounting standards.
Redemption for Tax Deductibility Event	Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Tax Deductibility Event, the Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

"Tax Deductibility Event" means the occurrence of a more than insubstantial increase in the risk that Distributions payable by the Issuer on the Securities are not, or will no longer be, deductible by the Issuer, in whole or in part, for Korean (or, in the case of a successor person, such other jurisdiction of the successor person, as applicable) tax purposes, as a result of (i) any change (including any officially announced proposed changes) in, or amendment to, the laws or regulations (or rulings promulgated thereunder) of Korea (or, in the case of a successor person, such other jurisdiction of the successor person, as applicable) or any political subdivision or any authority thereof or therein having power to tax, that becomes effective on or after the Issue Date (or, in the case of a successor, following the date of succession), or (ii) any administrative decision, judicial decision, administrative action or any other official pronouncement interpreting or applying those law, regulations or rulings that is announced on or after the Issue Date (or, in the case of a successor, following the date of succession), and, in each case, such non-deductibility cannot be avoided by the Issuer through the taking of reasonable measures available to the Issuer.

Optional Redemption and Purchase Conditions . . . . Any redemption of the Securities at the option of the Issuer (other than on an Issuer Redemption Date) is subject to (i) the prior approval of the Financial Supervisory Service of Korea (the "FSS") or other relevant regulatory authorities of Korea (if then required) and (ii) satisfaction of any other conditions as required under the RSIB, the Detailed Enforcement Regulations on Insurance Business Supervision (as amended or modified from time to time) or other successive regulations in effect at the time of such redemption ((i) and (ii) collectively, the "Optional Redemption and Purchase Conditions"). The Optional Redemption and Purchase Conditions applicable as of the Issue Date are as follows:

(a) such redemption may not occur within five years of the Issue Date; and

(b) either:

(i) immediately after such redemption (which shall have been decided by the Issuer at its sole discretion and approved by the FSS), the Issuer's Solvency Margin Ratio shall be equal to or greater than 150%; or

(ii) (A) the Issuer's Solvency Margin Ratio shall be equal to or greater than 100%; (B) prior to such redemption, the Issuer issues or incurs qualifying financing via instruments with stronger capital characteristics (such as shares or instruments with a maturity longer than the remaining maturity of the Securities and with more favourable financing terms, including but not limited to a lower interest rate) in an amount not less than the aggregate principal amount of the Securities

	to be redeemed; (C) the Distribution Rate of the Securities shall have been recognised by the FSS as significantly unfavourable to the Issuer due to changes in market conditions since the Issue Date; and (D) the Issuer shall have obtained prior approval from the FSS for such redemption. The Issuer will notify the Securityholders of the Optional Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the date scheduled for redemption).
Taxation	All payments (if any) of principal of, premium (if any) on, and Distributions on, the Securities by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer will pay Additional Amounts as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Securities in the absence of the withholding or deduction, subject to certain exceptions.
Form and Denomination	The Securities will be issued in registered form in denominations of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.
Use of Proceeds	The Issuer expects to use the net proceeds from the Offering for general corporate purposes.
Global Securities	The Securities will be initially represented by beneficial interests in a global certificate in registered form which will be registered in the name of a nominee of, and will be deposited on or about the Issue Date with a common depositary for, Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream"). Beneficial interests in the global certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream.
Ratings	The Securities are expected to be rated "Baa3" by Moody's and "BBB-" by Fitch. A rating is not a recommendation to buy, sell or hold the Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Governing Law	The Securities, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that the provisions of the Securities relating to subordination (Condition 3.2) shall be governed by Korean law.

Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies).
Selling Restrictions	There are restrictions on the distribution of this offering circular and the making of solicitations pursuant hereto in certain jurisdictions, including, among others, the United States, the United Kingdom, Hong Kong, Singapore and Korea. See "Subscription and Sale."
Security Codes	**Common Code:** 171295696 **ISIN:** XS1712956967

SUMMARY FINANCIAL AND OPERATING DATA

The following tables set forth our summary financial and operating data. Our summary financial data as of and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from our annual consolidated financial statements included elsewhere in this offering circular. Our summary financial data as of June 30, 2017 and for the six months ended June 30, 2016 and 2017 set forth below has been derived from our unaudited condensed consolidated interim financial statements included elsewhere in this offering circular. Our financial statements included in this offering circular have been prepared in accordance with K-IFRS, which differ in certain significant respects from generally accepted accounting principles in other countries.

Summary Statements of Comprehensive Income Data

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating revenue:					
Insurance premium income	₩6,428	₩ 7,981	₩ 7,993	₩4,062	₩3,674
Reinsurance income	520	591	621	329	313
Interest income	772	839	908	457	473
Compensation income	—	0	—	—	—
Gain on financial assets at fair value through profit or loss	84	88	50	33	54
Gain on valuation and disposal of loans and other receivables	—	4	11	9	5
Gain on foreign currency translation and transactions	91	179	194	12	25
Gain on disposal and valuation of derivatives	34	36	69	65	323
Other operating income	110	140	148	72	99
Fees from separate accounts	215	145	136	82	77
Separate account revenue	31	46	57	34	50
Total operating revenue	8,285	10,049	10,187	5,154	5,093
Operating expenses:					
Change in reserves for insurance contracts	2,690	3,949	3,569	1,957	1,459
Insurance claims paid	3,381	3,684	4,180	1,993	2,109
Reinsurance expenses	522	588	603	308	318
Loss on compensation receivables	1	—	1	1	1
Business expenses	495	562	615	340	281
Amortization of deferred policy acquisition costs	607	610	604	310	277
Claim handling expenses	51	54	57	28	29
Property administration expenses	40	42	50	21	21
Loss on valuation and disposal of securities through profit or loss	12	27	23	15	8
Loss on valuation and disposal of trade receivables	1	6	11	3	6
Loss on foreign currency translation and transactions	17	13	46	48	296
Loss on disposal and valuation of derivatives	99	190	212	25	44
Interest expenses	28	34	33	17	17
Other operating expenses	13	38	29	12	17
Fees for separate accounts	149	73	32	22	7
Separate account expenses	31	46	57	34	50
Total operating expenses	8,136	9,917	10,118	5,133	4,941

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating profit	150	132	69	21	153
Non-operating income	9	13	10	2	12
Non-operating expenses	13	14	19	4	13
Profit before income tax	146	131	60	19	152
Income tax expense	34	25	(8)	(20)	32
Profit for the period	₩ 111	₩ 107	₩ 68	₩ 39	₩ 119
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property and equipment	1	1	1	1	48
Remeasurements of net defined benefit liabilities	0	0	(0)	0	(0)
Items that may be subsequently reclassified to profit or loss:					
Changes in the fair value of available-for-sale financial assets	249	(177)	(121)	218	(14)
Gain (loss) on valuation of held-to-maturity financial assets	—	224	124	(10)	(15)
Cash flow hedge	13	(4)	17	0	(10)
Other comprehensive income of separate accounts	16	1	(8)	21	1
Other comprehensive income for the period, net of tax	279	45	12	229	10
Total comprehensive income for the period	₩ 390	₩ 151	₩ 81	₩ 268	₩ 129
Profit is attributable to:					
Owners of the Parent Company	97	99	55	33	95
Non-controlling interest	15	8	13	6	25
	₩ 111	₩ 107	₩ 68	₩ 39	₩ 119
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company	341	133	74	248	101
Non-controlling interest	49	18	7	20	29
	₩ 390	₩ 151	₩ 81	₩ 268	₩ 129
Earnings per share for profit attributable to the equity holders of the Parent Company	₩7,112	₩ 7,267	₩ 4,081	₩2,451	₩6,965

Summary Statements of Financial Position Data

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(in billions of Won)			
Assets				
Cash and cash equivalents	₩ 373	₩ 491	₩ 344	₩ 151
Deposits	1,221	1,102	457	399
Securities	12,837	16,179	20,058	21,316
Loans receivables	7,040	8,227	8,740	8,815
Property and equipment	286	318	317	334
Investment property	651	626	627	674
Intangible assets	125	121	117	119
Derivative assets	37	21	24	82
Current tax assets	36	54	67	31
Other financial assets	721	780	837	776
Other assets	1,460	1,445	1,382	1,315
Separate account assets	2,229	2,471	2,667	3,001
Total assets	₩27,016	₩31,833	₩35,638	₩37,012
Liabilities				
Insurance contract liabilities	₩21,886	₩25,837	₩29,401	₩30,861
Policyholders' equity adjustment	93	90	67	59
Borrowings	450	501	486	501
Deferred tax liabilities	129	150	145	167
Derivative liabilities	55	173	249	94
Net defined benefit liabilities	1	0	1	1
Provisions	7	10	11	9
Other financial liabilities	351	396	352	343
Other liabilities	222	386	352	222
Separate account liabilities	2,431	2,760	2,973	2,990
Total liabilities	25,626	30,303	34,038	35,247
Equity				
Share capital	68	68	68	68
Hybrid bond	—	—	—	35
Additional paid-in capital	91	98	98	98
Other components of equity	369	403	422	428
Retained earnings	682	781	826	921
Non-controlling interests	180	179	185	214
Total equity	1,391	1,530	1,600	1,765
Total equity and liabilities	₩27,016	₩31,833	₩35,638	₩37,012

Operating Data of the Issuer (Including Separate Accounts)

	As of or for the Year Ended December 31,			As of or for the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, except as otherwise indicated)				
Total policies in force (in thousands)	2,665	2,946	3,048	3,027	3,047
Number of new policies sold (in thousands)	688	668	525	270	183
Gross premiums(1)(2)	₩4,328	₩5,633	₩5,674	₩2,625	₩2,346
First year premiums(3)	355	697	397	257	77
First year regular payment premiums	86	126	84	52	23
First year single payment premiums	269	571	313	204	54
In-force face amount growth ratio(4)	1.1%	1.1%	1.0%	1.1%	1.0%
New policy growth ratio(5)	23.9%	25.2%	17.8%	20.8%	11.0%
Lapse and surrender ratio(6)	10.4%	9.9%	10.6%	11.4%	10.4%
Policy persistency ratio(7):					
13-month	86.5%	84.1%	82.4%	83.5%	82.1%
25-month	56.9%	70.7%	69.9%	70.1%	69.4%
Operating expense ratio(8)	5.5%	5.5%	6.2%	7.3%	6.9%
Risk-based capital adequacy ratio (standalone)(9)	218.3%	183.1%	168.7%	198.0%	189.3%
Risk-based capital adequacy ratio (consolidated)(9)	N/A(10)	N/A(10)	145.4%	N/A(10)	162.2%
Return on equity(11)	8.0%	7.6%	2.8%	3.5%	8.9%
Return on assets(12)	0.4%	0.4%	0.2%	0.2%	0.5%

(1) The amount of premiums recognized in a specified period in respect of policies in force during such period, on a standalone basis.

(2) Includes (i) the portion of premiums paid by variable insurance policyholders that relates to benefits based on the performance of the underlying investment assets and (ii) premiums from retirement pension products, on a standalone basis, which are not recognized as premium income in our statements of comprehensive income.

(3) Includes the portion of premiums paid by variable insurance policyholders that relates to benefits based on the performance of the underlying investment assets, on a standalone basis, which are not recognized as premium income in our statements of comprehensive income, and is prior to deduction of any refunds of previously paid premiums.

(4) The ratio of (i) the difference between the total face amount of policies that have not expired or been terminated as of the end of the specified period and the aggregate face amount of policies in force at the beginning of such period to (ii) the aggregate face amount of policies in force at the beginning of such period, on a standalone basis.

(5) The ratio of the aggregate face amount of policies sold during the specified period (annualized for interim periods) to the aggregate face amount of policies in force at the beginning of such period, on a standalone basis.

(6) The ratio of the aggregate face amount of all policies that were terminated or expired and were not renewed during the specified period to the sum of (i) the aggregate face amount of policies in force at the beginning of such period and (ii) the aggregate face amount of policies sold during such period, on a standalone basis.

(7) The ratio of (i) the sum of the aggregate face amount of the policies that remained in force at the 13th month or 25th month policy anniversary date, as applicable, falling within the specified period to (ii) the sum of the aggregate face amount of all policies sold that would have had such a policy anniversary date, as calculated in accordance with the applicable requirements of the FSS, on a standalone basis.

(8) The ratio of (i) the sum of policy acquisition and maintenance expenses for the specified period (before adjusting for deferred acquisition costs) to (ii) general account and separate account premium income for such period, on a standalone basis.

(9) Calculated in accordance with the applicable requirements of the FSS. See "Regulation and Supervision — Risk-Based Supervision of Insurance Companies — Risk-Based Capital Adequacy Requirements."

Effective December 31, 2016, the FSS required risk-based capital adequacy ratios to be calculated on a consolidated basis. As such, the Issuer's risk-based capital adequacy ratios on a standalone basis as of December 31, 2016 and June 30, 2017 are provided for reference purposes only. For information regarding our available capital for purposes of calculating our statutory risk-based capital adequacy ratio as of June 30, 2017, see "Business — Risk-Based Capital Adequacy Requirements."

(10) Not applicable.

(11) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total equity for such period, on a standalone basis.

(12) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total assets for such period, on a standalone basis.

Operating Data of Heungkuk Fire & Marine

	As of or for the Year Ended December 31,			As of or for the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, except as otherwise indicated)				
Total policies in force (in thousands)	4,833	4,962	4,782	4,869	4,608
Number of new policies sold (in thousands)	1,863	1,692	1,344	718	470
Gross direct written premiums[(1)]	₩3,028	₩3,333	₩3,345	₩1,688	₩1,609
Net earned premiums[(2)]	₩2,519	₩2,776	₩2,756	₩1,392	₩1,321
Loss ratio[(3)]	85.0%	87.5%	88.6%	86.8%	89.3%
Operating expense ratio[(4)]	22.3%	21.1%	21.0%	22.0%	19.4%
Risk-based capital adequacy ratio (standalone)[(5)]	163.4%	150.9%	154.9%	151.1%	168.5%
Risk-based capital adequacy ratio (consolidated)[(5)]	N/A[(6)]	N/A[(6)]	154.9%	N/A[(6)]	168.5%
Return on equity[(7)]	9.1%	4.7%	6.5%	4.2%	20.2%
Return on assets[(8)]	0.5%	0.3%	0.4%	0.2%	1.2%

(1) The amount of direct written premiums recognized in a specified period in respect of policies in force during such period, on a standalone basis.

(2) The sum of (i) gross direct written premiums for the specified period, (ii) reinsurance premium income for such period, (iii) return of surrender refunds for such period and (iv) total unearned premiums deferred from the previous period, less the sum of (x) reinsurance expenses for the specified period, (y) surrender refunds for such period and (z) total unearned premiums deferred to the next period, on a standalone basis.

(3) The ratio of (i) total claims paid for the specified period to (ii) net earned premiums for such period, on a standalone basis.

(4) The ratio of (i) the sum of policy acquisition and maintenance expenses for the specified period (before adjusting for deferred acquisition costs) to (ii) net earned premiums for such period, on a standalone basis.

(5) Calculated in accordance with the applicable requirements of the FSS. See "Regulation and Supervision — Risk-Based Supervision of Insurance Companies — Risk-Based Capital Adequacy Requirements." Effective December 31, 2016, the FSS required risk-based capital adequacy ratios to be calculated on a consolidated basis. As such, Heungkuk Fire & Marine's risk-based capital adequacy ratios on a standalone basis as of December 31, 2016 and June 30, 2017 are provided for reference purposes only.

(6) Not applicable.

(7) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total equity for such period, on a standalone basis.

(8) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total assets for such period, on a standalone basis.

RISK FACTORS

You should carefully consider the risks described below and all other information contained in this offering circular before making an investment decision. If any of the following risks, as well as other risks and uncertainties that are not currently known or that we currently think are immaterial, are actually realized, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of the Securities could decline, and you may lose part or all of your investment.

Risks Relating to Our Business

Competition in the Korean insurance industry is intense, and we may experience declines in our market share and profitability as a result.

Competition in the Korean life insurance and property and casualty insurance industries is intense. Competition is based on a number of factors, including brand recognition, service, product features, price, quality of investment advice, investment performance, perceived financial strength and credit ratings. In recent years, there has been downward pressure on margins of insurance products as some of our competitors have sought to obtain or maintain market share by reducing margins and increasing marketing efforts. As the Korean life insurance and property and casualty insurance industries continue to mature, they may experience a slowdown in growth as well as a stagnation in market penetration. Due to these and other factors, we believe that competition in the Korean life insurance and property and casualty insurance industries will likely remain intense in the future. Sustained or increased competition may lead to decreases in our market share and our margins, resulting in a material adverse impact on our revenues and our profitability.

The Issuer competes principally with large Korean life insurance companies such as Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and Kyobo Life Insurance Co., Ltd., which historically have held substantial market shares in the Korean life insurance market. The Issuer also competes with other mid-sized domestic life insurance companies such as Mirae Asset Life Insurance Co., Ltd., Nonghyup Life Insurance Co., Ltd., ING Life Insurance Korea, Ltd. and Shinhan Life Insurance Co., Ltd., as well as Korean affiliates of foreign life insurance companies, such as Tong Yang Life Insurance Co., Ltd., MetLife Insurance Company of Korea, Ltd. and Prudential Life Insurance Company of Korea, Ltd., whose parent companies may have greater experience and resources in their respective home markets. In the Korean property and casualty insurance market, Heungkuk Fire & Marine primarily competes with domestic property and casualty insurance companies such as Samsung Fire & Marine Insurance Co., Ltd., Hyundai Marine & Fire Insurance Co., Ltd., Dongbu Insurance Co., Ltd., KB Insurance Co., Ltd., Meritz Fire & Marine Insurance Co. Ltd. and Hanwha General Insurance Co., Ltd., most of which have held larger market shares than Heungkuk Fire & Marine in recent years.

In addition, in specific areas such as savings insurance and variable insurance, our products also compete with those offered by commercial banks, securities companies and asset management companies. Furthermore, risk protection products with insurance features are also sold by the Korea Post through its extensive nationwide branch network. Certain of our competitors are larger in terms of asset size and customer base, have greater financial resources, offer a broader range of products or have access to a more extensive distribution network than we do. Moreover, a number of our competitors are affiliated with large Korean business or financial groups, which may provide a competitive advantage to the extent that they are able to take advantage of such affiliation, including through cross-promotion opportunities and access to the existing customer base of their affiliates.

Furthermore, a number of significant mergers and acquisitions in the insurance industry have taken place in Korea in recent years, including the acquisition of Woori Aviva Life Insurance Co., Ltd., first by NongHyup Financial Group Inc. in 2014 and subsequently by DGB Financial Group in 2015, the acquisition of LIG Insurance Co., Ltd. by KB Financial Group Inc. in 2015, the acquisition of a controlling stake in Tong Yang Life Insurance Co., Ltd. in 2015 and the acquisition of Allianz Life Insurance in 2016, each by China’s Anbang

Insurance Group, and the acquisition of PCA Life Insurance Co., Ltd. by Mirae Asset Life Insurance Co., Ltd. in 2017. We expect that changes in the competitive landscape of the life insurance and property and casualty industries, as well as the financial industry generally, will continue. Such changes may significantly increase the customer base and operating scale of some of our competitors. Certain of the financial institutions resulting from these changes may, by virtue of their increased size and business scope, provide greater competition for us.

We intend to continue our efforts to enhance our products and services and sustain our competitiveness, but we cannot guarantee that we will be successful. If we are not able to respond to competitive market conditions in the future, our growth and profitability may decline, which could materially and adversely affect our business, results of operations and financial condition.

Changes in interest rates may reduce the profitability of our spread businesses and the return on our investments, as well as negatively impact our risk-based capital adequacy ratio.

Our results of operations depend, in part, on prevailing interest rates, our level of net interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities in connection with both our life insurance and property and casualty insurance businesses. In particular, some of our insurance products, principally fixed annuities, savings policies and long-term insurance policies with guaranteed minimum annuity or interest payments, expose us to the risk that changes in interest rates will reduce our "spread," or the difference between the amounts that we are required to pay under the relevant policies and the rate of return we are able to generate on the general account investments of our life insurance and property and casualty insurance operations intended to support our obligations under the policies. Declines in our spread from these products or other spread businesses we conduct could have a material adverse effect on our business and results of operations.

In periods of increasing interest rates, the yields on the assets in the general accounts of our life insurance and property and casualty insurance businesses may not be sufficient to fund the higher floating interest credit rates necessary to keep our interest-sensitive insurance products competitive. We therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater attrition among existing policyholders. In addition, in periods of increasing interest rates, the value of our fixed-interest assets may decline, resulting in lower unrealized gains within other comprehensive income in our total equity, which in turn would lower our available capital and our risk-based capital adequacy ratio. Moreover, surrenders and withdrawals of insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns. This process may lead to a cash outflow from our life insurance and property and casualty insurance businesses. Such cash outflows may require us to sell our investment assets at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. Unanticipated surrenders and withdrawals also may require us to accelerate the amortization of deferred policy acquisition costs, which would increase our current expenses. Conversely, in periods of declining interest rates, we typically have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments then available. In a declining interest rate environment, we may not be able to find attractive new reinvestment opportunities for our portfolio of fixed-interest debt securities, a portion of which will mature in the next few years. Moreover, while we are entitled to adjust the base rate applicable to our interest-sensitive insurance products, which provide benefits determined in accordance with a floating interest crediting rate, we may not be able to do so on a timely basis in periods of declining interest rates because making such adjustments could have a significant adverse effect on our sales and reputation. Furthermore, some of our insurance products, including fixed annuities, have guaranteed minimum interest or annuity payments, which we are not entitled to reset. Accordingly, our spreads could decrease and potentially become negative.

We currently use derivatives to help manage a portion of our interest rate risk, and plan to continue to do so in the future depending on market conditions and the availability of suitable products. However, the derivatives we utilize may not be completely effective at managing such risk. Accordingly, changes in market interest rates may have a material adverse effect on our business, results of operations and financial condition. Many factors affect interest rates, including governmental monetary policies and domestic and international economic and political conditions. Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea reduced its policy rate by a total of 325 basis points to support Korea's economy amid the global financial crisis, and left such rate unchanged at 2.00% throughout 2009. In an effort to stem inflation amid improved growth prospects, the Bank of Korea gradually increased its policy rate in 2010 and 2011 by a total of 125 basis points. However, the Bank of Korea reduced its policy rate to 3.00% in July 2012 and further reduced such rate to 1.25% in June 2016 through a series of reductions amid deflationary concerns and interest rate cuts by central banks around the world. The Bank of Korea may decide to increase its policy rate in the future in order to pre-empt or counteract potential inflationary trends in the domestic economy.

We also seek to manage interest rate risk by matching, to the extent possible, the duration of our interest-bearing liabilities, such as our insurance policy liabilities, and our interest-earning assets supporting such liabilities, such as our general account investment assets. Matching the duration of our assets to their related liabilities reduces our exposure to changes in interest rates, because the effect of such changes on our interest-earning assets and interest-bearing liabilities will be offset against each other to a certain degree. Historically, the availability of long-term fixed income securities in the Korean financial markets was limited, which has generally resulted in the average duration of interest-earning assets being shorter than that of interest-bearing liabilities of Korean life insurance companies, including us. Although such securities have become more accessible in the Korean financial markets, our ability to match the duration of our interest-earning assets and interest-bearing liabilities remains limited. In addition, while investing in interest-earning assets outside of Korea may enhance our ability to match the duration of our assets to their related liabilities, the resulting mismatch in currencies may increase our exposure to changes in exchange rates. See "— Our investment risk may increase as we diversify our investment portfolio to include more overseas securities."

We continue to experience a negative spread on certain high guaranteed rate of return products remaining outstanding.

Prior to 1998, like other major insurance companies in Korea, we offered savings insurance policies, fixed annuities and other products with relatively high guaranteed rates of return, primarily as a result of the then-prevailing high market interest rates. As market interest rates in Korea subsequently decreased, the actual rates of return on our general account investments intended to support our obligations with respect to such products declined below the assumed rates of return we used in pricing such products. The difference between the guaranteed return rates on such products and market interest rates resulted in a negative spread on such products, which has adversely affected our overall profitability.

As of December 31, 2014, 2015 and 2016 and June 30, 2017, on a standalone basis, the Issuer's premium reserves, calculated in accordance with the guidelines of the FSS, for in-force policies with guaranteed rates of return equal to or in excess of 6.0% per annum represented 15.2%, 12.7%, 10.9% and 10.3%, respectively, of the Issuer's total general account premium reserves. In comparison, the Issuer's average crediting rate on its total in-force policies, on a standalone basis, has continued to decline from 4.5% per annum as of December 31, 2014 to 4.1% as of December 31, 2015, 3.9% as of December 31, 2016 and 3.8% as of June 30, 2017.

We have made concerted efforts over the years to decrease our exposure to the negative spread on our legacy portfolio of high guaranteed rate of return products, by focusing on new insurance products that provide returns based on floating interest rates as well as seeking to match, to the extent possible, the duration of our interest-earning general account investment assets to the duration of our interest-bearing policy liabilities. As a result, our level of exposure to such products is relatively low compared to that of many of our competitors in Korea. However, while the aggregate in-force amount of such legacy policies has continued to decrease as a percentage of our total in-force portfolio and the adverse impact on our results of operations from the negative spread on such policies has correspondingly decreased due to such efforts, there can be no assurance that the negative spread on such legacy policies will not have a material adverse impact on our results of operations in the future, especially in the event of further decreases in market interest rates.

Our business and performance are dependent on the effectiveness of our distribution and marketing channels and our distribution and product strategies.

We utilize a multi-channel distribution and marketing platform for both our life insurance and our property and casualty insurance operations. In addition to the traditional tied agent channel, we operate alternative distribution and marketing channels for the sale of our insurance products. In particular, we have entered into bancassurance arrangements with leading commercial banks, securities companies and savings banks in Korea, pursuant to which they market and distribute our insurance products through their branches on a non-exclusive basis. In addition, we have entered into marketing arrangements with large-sized independent insurance sales agencies (referred to as “general agencies”) and individual agencies in Korea for the sale of a wide range of our insurance products. We also utilize our direct marketing channel to distribute our insurance products through telemarketing and marketing on home shopping television networks, as well as through the Internet.

In recent years, the Issuer has relied on its bancassurance and agency channels and Heungkuk Fire & Marine has relied on its agency channel as the primary channels for the distribution and marketing of their insurance products. On a standalone basis, 62.4%, 70.1%, 42.7% and 36.5% of the Issuer’s first year premiums (including separate account premiums other than for retirement pension products) in 2014, 2015 and 2016 and the first half of 2017, respectively, were attributable to products sold through its bancassurance channel, while 24.2%, 20.4%, 39.8% and 36.7% of the Issuer’s first year premiums (including separate account premiums other than for retirement pension products) in 2014, 2015, 2016 and the first half of 2017, respectively, were attributable to products sold through its agency channel. In addition, on a standalone basis, 38.0%, 38.8%, 40.0% and 42.4% of Heungkuk Fire & Marine’s gross direct written premiums in 2014, 2015 and 2016 and the first half of 2017, respectively, were attributable to products sold through its agency channel. Because of differences in productivity, a relatively small number of bancassurance partners and agencies generate a disproportionately high percentage of our insurance product sales. We expect to continue to depend on such distribution and marketing channels for a substantial portion of our total insurance sales. See “Business — Life Insurance Business — Distribution and Marketing Channels of the Issuer” and “Business — Property and Casualty Insurance Business — Distribution and Marketing Channels of the Heungkuk Fire & Marine.”

Significant competition exists in the Korean insurance industry for arrangements with productive bancassurance partners and agencies, as well as for experienced tied agents. Such competition may require us to enhance the commissions, training and other benefits provided with respect to our distribution and marketing channels, which would increase our operating costs and reduce our profitability. If we are unable to maintain and build on our relationships with our core group of bancassurance partners and agencies and motivate them to sell our insurance products, or if we fail to continue to successfully utilize our tied agent and direct marketing channels to supplement our bancassurance and agency channels, our business, results of operations and financial condition could be materially and adversely affected.

In recent years, we have been implementing various changes to our distribution and product strategies, as part of our efforts to enhance our operational efficiencies and improve our profitability. In particular, we have taken measures to streamline our tied agent channel by terminating relationships with unproductive tied agents and closing a number of branch offices. We are also seeking to expand our offerings and increase our sales of variable insurance products, by leveraging the strength of our bancassurance and agency channels, while reducing sales of lower-margin savings insurance products. See “Business — Our Strategy.” Although we believe that such strategic initiatives will help lower our operating costs and improve our capital position and profitability, they will likely result in a decrease in our premium income in the near to medium term, and may also lead to a loss of customers and market share. Furthermore, there is no guarantee that we will be able to successfully implement such strategic initiatives or that they will be effective in enhancing our business and performance.

We may be required to raise additional capital or reduce our growth or business scale if our risk-based capital adequacy ratio deteriorates or the applicable capital requirements change in the future.

Pursuant to the risk-based capital adequacy requirements implemented by the FSS, insurance companies are required to maintain a statutory ratio of available regulatory capital to risk-weighted assets of not less than 100% on a consolidated basis. Furthermore, the FSS had previously recommended that insurance companies maintain a risk-based capital adequacy ratio of not less than 150%, and its former administrative guidelines had required insurance companies failing to maintain such recommended 150% ratio to submit a capital increase plan. Although the FSS has since withdrawn such administrative guidelines, we believe that a risk-based capital adequacy ratio of not less than 150% is still generally followed in the Korean insurance industry. Risk-based capital adequacy requirements require insurance companies to hold adequate capital to cover their exposures to interest rate risk, market risk, credit risk and operational risk as well as insurance risk by reflecting such risks in their calculation of risk-weighted assets. The statutory risk-based capital adequacy ratio for insurance companies is computed by dividing available capital by required capital. Available capital of an insurance company is computed as the sum of, among other things, capital stock, reserve for policyholder dividends and bad debt allowance after deducting, among other things, deferred acquisition costs, goodwill, and prepaid expenses. Required capital is computed based on the sum of (i) the square root of the sum of the squares of (w) insurance risk amounts, (x) interest rate risk amounts, (y) credit risk amounts and (z) market risk amounts, and (ii) the operating risk amount, with each risk amount being calculated in accordance with the detailed criteria set forth under Article 7-2 of the Regulation on Supervision of Insurance Business and Article 5-7-3 and Table 22 under the Enforcement Rules of the Regulation on Supervision of Insurance Business.

In addition, effective December 31, 2016, the FSS increased the confidence level applied in determining the credit risk amount for calculating the statutory risk-based capital adequacy ratio of insurance companies from 97% to 99% and required such statutory risk-based capital adequacy ratio to be calculated on a consolidated basis. Such changes in calculation method have had a negative impact on our risk-based capital adequacy ratio. In part due to such regulatory changes, our risk-based capital adequacy ratio decreased from 183.1% as of December 31, 2015 on a standalone basis to 145.4% as of December 31, 2016 on a consolidated basis but partially recovered to 162.2% as of June 30, 2017 on a consolidated basis. The FSS has also announced that it plans to introduce a new regulatory solvency regime for insurance companies based on the International Capital Standard developed by the International Association of Insurance Supervisors, which would be similar in substance to the Solvency II Directive of the European Union. The Solvency II Directive, which has been in effect in the European Union since January 1, 2016, is a comprehensive program of regulatory requirements for insurance companies, covering authorization, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency. Under the FSS' planned new solvency regime in Korea, among other things, insurance contract liabilities are expected to be measured based on market value, rather than book value, which would require a number of insurance companies in Korea with a large portfolio of high guaranteed rate of return products, including the Issuer, to obtain additional capital to meet their capital adequacy requirements. In addition, according to certain discussion materials regarding the new solvency regime released by the FSS in March 2017, the FSS proposes to decrease the amount of subordinated capital securities recognized as available regulatory capital of an insurance company by 20% annually, once the time remaining until the economic maturity of such securities (which refers to the earliest date on which the securities may be redeemed, including by exercising any call option) is less than five years. As an interim measure, the FSS also recently announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies. Such changes implemented in June 2017 included increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation to 30 years (from the current maximum of 20 years), as well as reducing the coefficient applied in calculating interest rate risk from 1.85% to 1.50%, and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies.

If an insurance company's interest-earning assets have a shorter duration than that of its interest-bearing liabilities, its interest rate risk for purposes of calculating its capital adequacy ratio may increase as a result of such new solvency regime. As of June 30, 2017, the duration of our interest-earning assets is longer than that of our interest-bearing liabilities for statutory purposes. However, the details of the new solvency regime in Korea have not yet been finalized and are likely to be further amended in the future. Accordingly, there is no guarantee that we will not be required to raise additional capital to sustain our risk-based capital adequacy ratio above the required level in connection with the future implementation of the new solvency regime. Any material deterioration in our risk-based capital adequacy ratio could change our customers' or our business counterparties' perception of our financial health, which in turn could adversely affect our sales, earnings and operations. For example, commencing in May 2017, a few commercial banks suspended bancassurance sales of the Issuer's savings insurance products with benefits at maturity of over Won 50 million for several months due to the fact that our risk-based capital adequacy ratio had decreased to below 150% on a consolidated basis as of December 31, 2016. Such suspensions were lifted as a result of the recovery of our risk-based capital adequacy ratio to 162.2% as of June 30, 2017 on a consolidated basis. Furthermore, while our risk-based capital adequacy ratio is currently above the required level, if we grow rapidly or if our asset quality deteriorates in the future, we may need to raise additional capital to meet our capital adequacy requirements. If we are not able to raise any additional required capital, we may be forced to reduce the growth or scale of our business.

Changes in accounting standards could adversely impact our reported results of operations and financial condition.

Our financial statements are subject to the application of K-IFRS, which is periodically revised or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by the Korean Accounting Standards Board (the "KASB"), which coordinates with the International Accounting Standards Board (the "IASB") to have International Financial Reporting Standards as issued by the IASB ("IFRS") translated into Korean for adoption as K-IFRS.

In response to a lack of comparability in the global insurance industry stemming from variations in accounting policies being applied, the IASB issued IFRS 17 (previously referred to as IFRS 4 Phase II), a new IFRS accounting standard for insurance contracts, in May 2017 with an effective date of January 1, 2021. The KASB is currently in the process of developing revised accounting standards in accordance with IFRS 17, which may be issued as early as the second half of 2017. Compliance with such revised accounting standards could significantly affect the way we and other insurance companies in Korea account for our insurance policies, annuity contracts and financial instruments and how our financial statements are presented.

IFRS 17 will introduce a fundamentally different approach to current accounting policies in terms of both liability measurement and profit recognition. Under IFRS 17, insurance contract liabilities will no longer be calculated based on historical or past assumptions but based on the present value of future insurance cash flows using a discount rate reflecting current interest rates and the characteristics of the insurance contracts, with a risk adjustment and deferral of up-front profits. Among other effects, this may result in an increase in the level of our liabilities, which would lead to a decrease in the balance of our available capital, which in turn may lower our risk-based capital adequacy ratio, depending on the solvency regime applicable at that time. In addition, under IFRS 17, certain parts of premium income from insurance contracts will be allocated over the coverage period in proportion to the value of expected coverage and other services that the insurer will provide over such period, rather than recognized at the time of receipt of premium payments, and the investment component of an insurance contract (which refers to amounts to be repaid to policyholders even if the insured event does not occur) will be disaggregated and excluded from premium income. Such changes to revenue recognition methodology will likely have the effect of, among other things, reducing the reported revenue from our insurance operations.

Given the complexity of IFRS 17 and the significant amount of time and resources that will be required to adopt IFRS 17 accounting, we have established and are in the process of executing an implementation plan, including investments in comprehensive information technology systems and processes that we plan to commence operating by the end of 2018 in order to enhance our financial analysis and impact assessment. We are also taking other measures to reduce the amount of our statutorily required capital under IFRS 17, including focusing on the marketing and distribution of variable insurance products as well as protection-type products, developing new products with improved capital efficiency and strengthening our asset-liability management and our monitoring of interest rate risk. Potential challenges that we may face in terms of implementation of IFRS 17 include:

- interpretation of the requirements and potential operational difficulties when applying such requirements;
- data collection, storage and analysis;
- integration of existing systems and processes with new actuarial systems;
- increased finance, actuarial and risk management coordination;
- implementation of new business strategies in preparation for IFRS 17 (including adjusting the duration of interest-earning assets and interest-bearing liabilities and our asset and liability management policies) while managing the impact of IFRS 17 on our risk-based capital adequacy ratio under the applicable Korean solvency regime;
- adjustment to a new Korean regulatory solvency regime, which is expected to be based on new global insurance capital standards and implemented around the time of the effective date of IFRS 17 (see "— We may be required to raise additional capital or reduce our growth or business scale if our risk-based capital adequacy ratio deteriorates or the applicable capital requirements change in the future."); and
- changes to other aspects of our business, such as product design, remuneration policies and business planning.

Although we believe that we are adequately preparing for the transition, the adoption of IFRS 17 and other new or revised accounting standards we are required to adopt in the future could result in significant costs and may have a material adverse effect on our business and our reported results of operations and financial condition.

We have substantial holdings of debt securities, and fluctuations in their value may adversely affect our performance.

We hold a significant amount of debt securities, primarily as part of the general account investment portfolio of our life insurance and property and casualty insurance operations. As of June 30, 2017, we had Won 5,670 billion of debt securities classified as available-for-sale financial assets and Won 10,992 billion of debt securities classified as held-to-maturity financial assets. The market value of these securities could decline significantly due to various factors, including increases in interest rates or a deterioration in the financial condition of any particular issuer or of the Korean or global economy in general. For example, general increases in market interest rates in Korea in the fourth quarter of 2016 had a negative impact on the value of our portfolio of debt securities, which in turn reduced unrealized gains in other comprehensive income within our total equity and resulted in a decrease in our risk-based capital adequacy ratio. See "— Changes in interest rates may reduce the profitability of our spread businesses and the return on our investments, as well as negatively impact our risk-based capital adequacy ratio."

Since a significant portion of our debt securities are categorized as available-for-sale financial assets, whose fair values are subject to market value fluctuations on a quarterly basis, any of the above factors individually or in combination could also require us to write down the fair value of these debt securities, resulting in valuation or impairment losses. In addition, a significant deterioration in the value of our debt securities categorized as held-to-maturity financial assets may also result in impairment losses. As a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices in recent years, including the prices of Korean and overseas debt securities we hold, which has resulted in and may lead to further valuation or impairment losses on our investment securities portfolio and other general account investment assets. See "— Adverse conditions and volatility in the Korean economy and financial markets may negatively affect our business and performance."

In addition, in the case of Korean corporate bonds that we hold, the secondary market for such securities is not as liquid as some of the debt securities markets in other countries, and therefore the market value of many of these securities as reflected on our balance sheets is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full "marked-to-market" value reflected on our balance sheet at the time of any such sale of these securities and thus may incur additional losses. Furthermore, the issuers whose debt securities we hold may fail to pay or otherwise default on their obligations due to bankruptcy, a lack of liquidity, a downturn in the economy, operational failures or other reasons. Losses resulting from such defaults could have an adverse impact on our results of operations and financial condition.

Our investment risk may increase as we diversify our investment portfolio to include more overseas securities.

The largest portion of our general account investment portfolio has traditionally consisted of domestic debt securities, which accounted for 36.4% of the Issuer's total general account investment assets as of June 30, 2017 on a standalone basis and 32.3% of Heungkuk Fire & Marine's total general account investment assets as of June 30, 2017 on a standalone basis. In recent years, we have started to pursue a strategic asset allocation plan with an increased emphasis on investing in overseas securities (including foreign-currency denominated bonds) compared to previous years, which may expose us to additional and different risks compared to our historical investment mix concentrated on domestic debt securities and loans. On a standalone basis, the portion of the Issuer's general account investment assets accounted for by overseas securities increased from 6.0% as of December 31, 2014 to 17.3% as of June 30, 2017. In addition, on a standalone basis, the portion of Heungkuk Fire & Marine's general account investment assets accounted for by overseas securities increased from 5.8% as of December 31, 2014 to 11.2% as of June 30, 2017. Investing and trading in overseas securities require more specialized investment and risk management expertise, which we may not be able to develop and maintain. Furthermore, the market value of the overseas securities in which we decide to invest could decrease significantly due to various factors, including declines in foreign stock markets, increases in global interest rates, a lack of liquidity, a deterioration in the operating performance or financial condition of particular issuers or of the overseas local or global economy in general. Accordingly, our increased investments in overseas securities may lead to trading and valuation losses, which could adversely affect our results of operations and financial condition.

Furthermore, we may incur foreign exchange losses on our investments denominated in foreign currencies. Appreciation of the Won reduces the Won value of our overseas securities and other general account investment assets denominated in foreign currencies. Although we generally seek to hedge the exchange rate risk arising from our general account investments in overseas securities through derivative financial instruments including currency swaps and forwards, our hedging activities relating to our investments denominated in foreign currencies may not be fully effective, and our investment results may be subject to exchange rate risk, as well as other risks and volatility affecting overseas capital markets. Future movements in the exchange rate of the Won against the U.S. dollar and other foreign currencies may result in foreign exchange losses or losses on our foreign currency forward or swap contracts entered into for hedging purposes, which may adversely affect our results of operations and financial condition.

Our profitability may be adversely affected if actual benefits and claims amounts on our in-force insurance policies exceed the amounts that we have reserved, or we increase the amount of reserves due to a change in our underlying assumptions.

We establish and carry, as a liability, policy reserves based on the greater of statutory reserves and actuarial estimates of how much we will need to pay for future benefits and claims on our in-force life insurance and property and casualty insurance policies. Our earnings depend significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our insurance products and establishing the liabilities in our financial statements for our obligations for future insurance policy benefits and claims. We establish the liabilities for obligations for future insurance policy benefits and claims based on the expected payout of benefits, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. We also use methods to analyze loss trends with respect to certain risk assumptions relating to natural disasters. These assumptions are based on our previous experience and published data from third party industry sources such as the KLIA and the GIAK, as well as judgments made by our management. These assumptions and estimates may deviate from our actual experience due to various factors that are beyond our control, including as a result of unexpected changes in the scope of coverage by the Korean national health insurance program or unfavorable re-interpretations of our insurance policy terms by Korean courts or regulators, as well as advancements in health care that result in increased life expectancy and early detection of diseases. For example, as a result of an unfavorable re-interpretation by the FSS and the Supreme Court of Korea of the scope of coverage under an accidental death benefit rider, we established premium reserves of Won 12 billion relating to overdue death benefits (including related interest expenses) in 2016 in respect of certain suicide claims. As of June 30, 2017, we had paid out Won 12 billion in respect of all applicable outstanding claims relating to such death benefits. See "— We may become subject to legal claims and regulatory actions which, if significant, could harm our business, performance and reputation." In addition, the occurrence of unexpected catastrophic events in Korea, including pandemics, natural or man-made disasters or terrorist attacks, may result in claims that significantly exceed our expectations. As a result, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the insurance policy liabilities will grow to the level we assume prior to payment of benefits or claims. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future.

We evaluate the adequacy of our insurance policy liabilities periodically based on changes in the assumptions used to determine our best estimates of claims, expenses, persistency rates and interest rates, as well as based on our actual policy benefits and claims results. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these liabilities, and our total insurance policy liabilities are considered to be inadequate to meet our future contractual obligations as and when they arise, we could be required to increase our liabilities. We record increases in our insurance policy liabilities as charges to our income statement in the period in which the liabilities are established or re-evaluated. If actual benefits and claims amounts exceed the amounts that we have reserved, or we increase the amount of insurance policy liabilities due to a change in our underlying assumptions, it could have a material adverse effect on our results of operations and financial condition.

While we utilize reinsurance arrangements to help manage our insurance risks, our reinsurance counterparties may fail to perform and reinsurance may otherwise not be available, affordable or adequate to protect us against losses.

We utilize reinsurance to mitigate some of our insurance risks with respect to various life insurance and property and casualty insurance products. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. Our aggregate reinsurance expenses amounted to Won 522 billion, Won 588 billion and Won 603 billion in 2014, 2015 and 2016, respectively, and Won 308 billion and Won 318 billion in the first half of 2016 and 2017, respectively. Our reinsurers may be unable or unwilling to pay the reinsurance benefit amounts owed to us currently or in the future or on a timely basis. A reinsurer's insolvency or its inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our results of operations, financial condition and cash flows.

In addition, reinsurance may not be available, affordable or adequate to protect us against losses. In general, our reinsurance agreements with our reinsurers do not have a definite term, but some agreements allow for recapture of ceded insurance risk within five to ten years and agreements for new business may be terminated at the end of the year with advance notice of 90 days. Market conditions outside our control determine the availability and cost of reinsurance protection for new insurance products. Any decrease in the amount of our reinsurance coverage will increase our risk of loss, and any increase in the cost of reinsurance will reduce our profits. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future insurance policies or result in the assumption of more risk with respect to those policies we issue.

We may experience increases in delinquencies in our loan portfolio.

As part of the general account investment activities of our insurance operations, we offer loans, including unsecured loans, loans secured by real estate and policy loans, to qualified retail and institutional borrowers. On a standalone basis, the loan portfolio of the Issuer increased from Won 5,105 billion as of December 31, 2014 to Won 5,617 billion as of June 30, 2017, of which Won 4,919 billion were classified as neither past due nor impaired as of December 31, 2014 and Won 5,450 billion were classified as neither past due nor impaired as of June 30, 2017. Future growth in our loan portfolio, as well as changes in economic conditions affecting our borrowers as well as in the real estate market in Korea, may lead to increasing delinquencies and a deterioration in asset quality, which would require us to increase our loan loss provisions and charge-offs and would adversely affect our results of operations and financial condition.

The occurrence of natural and other disasters may result in substantial claims under property and casualty insurance policies issued by Heungkuk Fire & Marine.

From time to time, Korea is subject to typhoons, earthquakes, floods, landslides, hailstorms and other types of natural disasters, the frequency and severity of which are inherently unpredictable. Natural disasters, which may be further exacerbated by the effects of global warming, as well as other disasters such as fires, explosions and industrial or other accidents in Korea can cause a significant impact on the business, financial condition and results of operations of Heungkuk Fire & Marine depending on their frequency, their nature and scope, the amount of property and casualty insurance coverage written in respect of them, the amount of claims for losses, the timing of such claims and the extent to which its liability is covered by reinsurance. Along with others in the property and casualty insurance industry, Heungkuk Fire & Marine uses models which assume various conditions and probability scenarios in assessing its exposure to catastrophic losses. However, such models are inherently subject to uncertainties and do not necessarily accurately predict future losses. The occurrence of a natural or other type of disaster, or a series of such disasters, the severity, frequency or nature of which Heungkuk Fire & Marine did not predict, or for which it did not adequately reserve or was not adequately reinsured, may result in substantial claims under its property and casualty insurance policies, which could have a material adverse impact on our business, financial condition and results of operations.

Decreases in the value of the Issuer's variable insurance investment assets could adversely affect our business and performance.

The Issuer offers variable insurance products that generally provide a return linked to an underlying investment portfolio designed by the policyholder while also providing a guaranteed minimum protection benefit and/or a guaranteed minimum accumulation benefit, predetermined by the contract, in return for periodic payment of fixed premiums over a predetermined period. The Issuer pools premiums paid by its variable insurance policyholders and purchases interests in investment funds among which its policyholders are able to allocate and adjust their investment portfolio, and distributes the returns from such investment portfolio to the beneficiaries upon the death of the insured person or to the policyholder upon the maturity of the contract or the predetermined accumulation date. The Issuer earns fee income based upon the estimated fair value of the assets under management. As part of our distribution and product strategies we are seeking to have the Issuer expand its offerings and increase its sales of variable insurance products. See "Business — Our Strategy."

Downturns and volatility in the Korean or global financial markets can have a material adverse effect on the revenues from and investment returns on the Issuer's variable insurance products. Because these products generate fees that are linked primarily to the value of the assets under management, a decline in financial markets could reduce the Issuer's revenues due to the reduction in the value of the investments it manages, and sustained weakness in the Korean or global financial markets could decrease the returns earned by the policyholders on those products. In addition, to the extent the investments that the Issuer manages in its variable insurance business are denominated in currencies other than the Won, the Issuer's revenues and its policyholders' investment returns from such business may fluctuate based on exchange rate movements. If the investment returns on the Issuer's variable insurance products deteriorate due to sustained weaknesses in the Korean or global financial markets or adverse exchange rate movements, surrenders and withdrawals of such products may increase as policyholders seek to invest in alternative products with perceived higher returns, which could adversely affect our business and performance.

In addition, the Issuer's variable insurance products generally offer limited guaranteed benefits which increase the Issuer's potential benefit exposure should financial markets decline. The Issuer collects premiums and establishes reserves for the provision of such limited guaranteed benefits to mitigate the impact of such increased potential benefit exposures from the Issuer's variable insurance products. However, periods of significant and sustained downturns in the Korean or global financial markets or increased market volatility could result in an increase in the amount of reserves that the Issuer is required to establish with respect to such products.

Adverse conditions and volatility in the Korean economy and financial markets may negatively affect our business and performance.

Our business and performance may be adversely affected from time to time by general economic and market conditions in Korea and elsewhere, which are subject to sudden and significant changes. A favorable economic environment is generally characterized by, among other factors, high GDP growth, stable geopolitical conditions, transparent and efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions, which can be caused by difficulties in the financial sector, corporate, political or other scandals that reduce interest or confidence in capital markets, declines in business confidence, increases in inflation, natural disasters or pandemics, outbreaks of hostilities or other geopolitical instability, or a combination of these or other factors, have in the past adversely affected, and may in the future adversely affect, our business and performance in many ways. See "Risk Factors — Risks Relating to Korea — If economic conditions in Korea deteriorate, our current business and future growth could be materially and adversely affected." In particular, our business relies substantially on sales of insurance products to retail customers in Korea. Our exposure to retail customers means that we are significantly affected by changes in economic and market conditions that impact individuals in Korea. For example, as consumers become more cost conscious, they may opt for more limited insurance coverage. In addition, as consumers purchase fewer automobiles, our sales of automobile insurance may decline. Increases in unemployment levels or interest rates, declines in real estate or stock prices or other adverse changes in the Korean economy or financial markets that affect retail customers could result in reduced demand for insurance and investment products and lower market participation levels by individuals, which in turn may have a material adverse effect on our business, results of operations and financial condition.

The Korean economy is closely tied to, and is affected by developments in, the global economy. In recent years, adverse conditions and volatility in the worldwide financial markets and the general weakness of the global economy have contributed to the uncertainty of global economic prospects. Financial markets have experienced significant volatility as a result of, among other things, ongoing concerns about the North Korean nuclear weapon and ballistic missile programs, adverse economic and political conditions in Europe and Latin America, a slowdown in China's economy and continuing geopolitical and social instability in various parts of the Middle East, including in Syria, Iraq and Yemen, as well as the referendum in the United Kingdom in June 2016 to exit from the European Union. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, results of operations and financial condition.

Furthermore, our ability to generate profits on insurance products depends in part on the returns on the general account investments supporting our obligations under these products, and the value of specific investments may fluctuate substantially depending on conditions in the global economy generally and particularly in the Korean and U.S. fixed income, real estate and equity markets. Changes in debt or equity price levels, interest rates, real estate prices or other market fluctuations and volatility may affect the value of our investment positions and the nature and level of our investment activities. The value of the Won relative to major foreign currencies in general, and the U.S. dollar, the Euro and the Japanese Yen in particular, has fluctuated widely in recent years. Continued exchange rate volatility may result in foreign exchange losses for us. As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as North Korea's nuclear weapon and ballistic missile tests, the political scandals and ongoing corporate investigations in Korea, the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment and lower consumer confidence, the economic outlook in the remainder of 2017 and for the foreseeable future remains uncertain.

We may incur losses if our risk management policies and procedures prove to be ineffective.

We have devoted significant resources to develop and enhance our risk management policies and procedures and expect to continue to do so in the future. We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, including hedging our exposure to various risks. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Many of our methods of managing risk and exposures are based on historical patterns and correlations that may limit the effectiveness of such methods in times of significant market stress or other unforeseen circumstances. Accordingly, we may not be able to predict future risk exposures that could be significantly greater, or of a different nature, than our historical risk exposure. Other risk management methods depend on the evaluation of information regarding markets, claims, counterparties, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us, which may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

The quantitative tools that we use to assess and control our risk exposures reflect assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators, and in times of market stress or other unforeseen circumstances, previously uncorrelated indicators may become correlated, or conversely previously correlated indicators may move in different directions. These types of market movements could limit the effectiveness of our hedging and other risk management strategies and cause us to incur losses or suffer from liquidity impairment. An increase in volatility would increase our measured risk, which might cause us to reduce our proprietary positions or to reduce certain of our business activities. In such circumstances, we may not be able to reduce our positions or our exposure in a timely, cost-effective way or in a manner sufficient to offset the increase in measured risk. Furthermore, our risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as us to deal with such market conditions. In such circumstances, it may be difficult for us to reduce our risk exposures due to the activity of such other market participants. If our risk management policies and procedures are ineffective in managing our various risks and exposures in the context of a continuously changing operating environment, we may incur losses, and our business, results of operations and financial condition could be materially and adversely affected.

We may incur losses due to fraud and other misconduct by customers and third parties.

We are exposed to the risk of fraud and other misconduct by customers and third parties, including insurance policy fraud (where fraudulent misstatements or omissions of fact are made in applications for insurance products by customers), insurance claims fraud (where fraudulent misstatements or omissions of fact are made in an effort to make or exaggerate claims under existing policies) and the intentional staging of accidents or other covered events in an effort to collect insurance payments, as well as the fraudulent execution of insurance contracts by our tied agents or individual or general agency personnel to collect sales commissions. The incidence of insurance fraud in Korea has been increasing in recent years according to the FSS. Although we employ detection and prevention processes to help monitor and prevent fraud and other misconduct, these processes may be inadequate or otherwise ineffective. Moreover, training and retaining qualified underwriters who can competently evaluate and screen potential customers, as well as underwrite policies in a manner that effectively protects us against fraudulent activity, requires substantial costs and resources. Although we have systems and processes in place to detect and prevent fraud, we cannot guarantee that fraud and other misconduct by customers and third parties will not occur or that such occurrences will not result in material losses.

Security breaches in our information technology and operational systems, or those of third parties, could disrupt our business, result in losses and damage our reputation.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our information technology and operational systems. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to disruptions, unauthorized access, computer viruses or other malicious programs and other events that could have a security impact. If such events occur, this potentially could jeopardize confidential information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remedy vulnerabilities or other exposures, and we may be subject to criminal and regulatory penalties, litigation and financial losses. Past incidents of mishandling personal data by financial institutions in Korea have led to heightened standards of regulatory scrutiny in Korea relating to personal data protection, and culminated in the amendment of the Personal Information Protection Act in July 2015 and the Credit Information Use and Protection Act in March 2015 to add punitive and statutory damages, which in turn has resulted in an increase in compliance costs.

In addition, we routinely transmit and receive personal, confidential and proprietary information through the Internet, by email and through other electronic means. An interception or mishandling of personal, confidential or proprietary information being sent to or received from a customer or counterparty could result in legal liability, regulatory action and reputational harm. We are exposed to similar risks arising from the interception of personal, confidential or proprietary information sent to or received from, or the misuse or mishandling of personal, confidential or proprietary information by, tied agents, agents, vendors, service providers and other third parties who may receive such information from us, and our efforts to ensure that these third parties have appropriate controls in place may not be successful.

The growth of electronic transactions and the introduction of new technologies may result in increased competition and adversely affect our business.

The growth of electronic commerce and the introduction of new technologies are changing our businesses and presenting us with new competitive challenges. For example, an increasing number of insurance policies are being sold directly online by small- and mid-sized insurance companies without the use of more traditional distribution channels such as tied agents or general agencies and at a lower cost to customers.

We expect that the trend toward growth of electronic transactions will continue. We have invested significant resources into the development of online and mobile business platforms in recent years and continuously seek to expand and upgrade our mobile applications and websites. However, there is no assurance that our online and mobile business platforms will remain competitive or that they will yield an adequate return on our investments.

We may become subject to legal claims and regulatory actions which, if significant, could harm our business, performance and reputation.

We face significant legal risks in our businesses, and the volume of claims and the amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions in Korea remain high. We are, and in the future may become, subject to legal and regulatory actions in the ordinary course of our business operations. Pending legal and regulatory actions include proceedings relating to aspects of our business and operations that are specific to us and proceedings that are typical of the industries in which we operate. Such legal and regulatory actions against us primarily relate to insurance settlement claims by our customers, commission-related claims by our tied agents and other agents, claims of fraud or other misconduct by our agents and employees, and assessments resulting from periodic tax audits by the National Tax Service.

In the past, some of the litigation and regulatory proceedings to which we became subject, particularly those relating to customer claims in connection with certain misstated or ambiguous terms under our standard insurance policy contracts, led to significant payments by us. For example, a clause in the standard terms of the accidental death benefit rider (the "ADB Rider") used by most Korean life insurance companies before 2010 had exempted a life insurance company from its obligation to pay accidental death benefits for suicide but with a proviso that limited the availability of such exemption to a period of two years from the subscription date of the relevant insurance policy. Since suicide was not included in the definition of "accident" under the standard terms of the ADB Rider, we believed that this exemption clause was inadvertently included in the standard terms of the ADB Rider. In light of the above, we revised this exemption clause in the standard terms of the ADB Rider in April 2010. As the revision to the standard terms of the ADB Rider did not apply retroactively to insurance products sold before the revision, disputes arose between Korean life insurance companies, including the Issuer, and the claimants as to whether life insurance companies were contractually required to pay accidental death benefits for suicides that occurred more than two years after the subscription date of the relevant insurance policies. In May 2016, the Supreme Court of Korea ruled against another life insurance company, in a case posing the same issue, requiring it to pay accidental death benefits for such suicide cases under the standard terms of the ADB Rider used prior to the deletion of the relevant exemption clause. In September 2016, the Supreme Court further ruled that a life insurance company was not required to pay accidental death benefits for suicide cases if the statute of limitations with respect to the applicable claims had expired. However, notwithstanding such Supreme Court ruling, the FSS determined that the life insurance companies at issue, including the Issuer, violated the applicable insurance regulations by failing to pay accidental death benefits for the relevant suicide cases on a timely basis, irrespective of the expiration of the statute of limitations.

We established premium reserves of Won 12 billion relating to overdue death benefits (including related interest expenses) in 2016 in respect of all applicable claims made to date involving such suicide cases based on our life insurance policies with accidental death coverage sold between December 1997 and April 2010. As of June 30, 2017, we had paid out Won 12 billion in respect of all applicable claims made to date involving such suicide cases based on our insurance policies with accidental death coverage. Although there may be additional future claims involving suicide cases based on such insurance policies sold during the relevant period, we have not established any reserves for the costs of such potential future claims. There can be no assurance that we will not face similar issues again in the future, where we may be required to pay claims that were not anticipated at the time we issued our life insurance policies, or that courts and regulatory authorities will agree with our interpretation of the scope of coverage under such policies.

In addition, from time to time we face legal disputes arising out of claims by our customers alleging that our tied agents and other sales agents insufficiently explained our insurance or investment products at the time of sale. We have incurred, and expect to incur in the future, costs or losses relating to such legal disputes with our customers. Although our maximum liability to each customer is normally limited to the amount of insurance premiums, or the price for the investment products, paid by the customer, we cannot provide any assurance that such legal disputes will not have a material adverse effect on our business or cause significant reputational harm.

From time to time, we may also become subject to legal disputes and regulatory proceedings outside the ordinary course of our insurance business operations, which could also expose us to substantial liabilities, fines and regulatory sanctions. For example, in September 2011, the FSS issued an institutional warning against us and imposed a fine of Won 740 million pursuant the allegation that we purchased golf memberships from an entity controlled by our controlling shareholder, Mr. Ho Jin Lee, on terms that were unfavorable to us, thus providing unfair support to Mr. Lee. We appealed such decision and, in September 2016, the FSS reduced the fine to Won 380 million.

As a participant in the Korean life insurance and property and casualty insurance industries, we may continue to experience a high level of legal and regulatory actions related to our business and operations. Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. Legal and regulatory actions may expose us to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against us, our directors, officers, employees and agents and restrictions on our operations, as well as significant reputational harm. Accordingly, we cannot guarantee that the outcome of current and future legal and regulatory actions relating to us will not have a material adverse impact on our business, reputation, results of operations and financial condition.

Work stoppages and other labor-related issues may adversely affect our operations.

Our performance depends to a large extent on favorable labor relations with our employees. As of June 30, 2017, approximately 200 of the Issuer's employees and approximately 281 of Heungkuk Fire & Marine's employees were members of labor unions, and our relationships with these and other employees are generally governed by collective bargaining agreements. We negotiate a collective bargaining agreement every two years and annually negotiate a wage agreement. The current collective bargaining agreements of the Issuer and Heungkuk Fire & Marine are scheduled to expire in 2018. Although we believe that our relations with our employees are generally good, there can be no assurance that new collective bargaining and wage agreements will be negotiated or consultations will take place without discord with our labor unions or on terms satisfactory to us. If we are unable to negotiate successfully with our labor unions, we may become subject to union-initiated work stoppages, including strikes.

From time to time we may also become subject to demands, claims or legal actions brought by our employees or our labor unions acting on their behalf, including in connection with the implementation of our strategies relating to improving our operational efficiency and enhancing our cost structures. See "Business — Our Strategy — Improve Operational Efficiencies." Any significant increase in labor and labor-related legal costs, deterioration of employee relations, slowdowns or work stoppages, as well as our failure to attract and retain qualified employees, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our business, reputation, results of operations and financial condition.

Employee and agent misconduct is difficult to deter and could harm our business and performance.

Misconduct by our employees, tied agents and other agents could result in violations of law by us, regulatory sanctions or legal claims against us and reputational or financial harm to us. Misconduct could include:

- engaging in misrepresentation or fraudulent activities when marketing or selling insurance or investment products to customers;
- defective sales of insurance or investment products due to failure to adequately explain product information and related risks to customers, including omission of information deemed material to making a purchasing decision;
- encouraging or advising customers to omit or misrepresent material information or developments, which could undermine our insurance underwriting procedures and practices;

- hiding unauthorized activities, resulting in unknown and unmanaged risks or losses; or
- otherwise not complying with applicable laws, regulatory guidance or policies, or our internal policies or procedures.

While we closely monitor our employees' and agents' activities to detect any such unauthorized activities, we cannot always deter employee or agent misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We have experienced employee and agent misconduct that has resulted in internal disciplinary action against, or termination of, the employees or agents (including tied agents) in question. We cannot guarantee that employee or agent misconduct or our failure to detect and address such misconduct will not harm our reputation or lead to a material adverse effect on our business, results of operations and financial condition.

Our business may be harmed if we are unable to hire and retain qualified personnel.

The success of our business is dependent to a large extent on our ability to attract and retain key personnel who have in-depth knowledge and understanding of the insurance markets in Korea, including members of our senior management, qualified insurance underwriting personnel, actuaries, information technology specialists and experienced investment and wealth managers, as well as productive tied agents. We do not carry key personnel insurance for any of these personnel. We compete to attract and retain these key personnel with other insurance companies and financial institutions, some of which may offer better compensation or benefit arrangements. As the insurance and other financial industries continue to expand in Korea and we become subject to new or revised accounting standards (such as IFRS 17) and regulatory requirements, we expect that competition for these personnel will increase in the future. Although we have not had difficulty in attracting and retaining qualified key personnel in the past, we cannot guarantee that this will continue to be the case. If we were unable to continue to attract and retain key personnel, our business and performance could be materially and adversely affected.

Risks Relating to Government Regulation and Policy

The life insurance and property and casualty insurance businesses are subject to extensive and pervasive regulation and changes in regulation may reduce our profitability.

Our operations are subject to the Korean Commercial Code and its regulations. Our life insurance and property and casualty insurance businesses are further regulated by the Insurance Business Act and its regulations, including the Regulation on Supervision of Insurance Business. We are regulated and supervised principally by the FSC and its administrative body, the FSS, and face the risk of significant intervention by regulatory authorities. New laws or regulations or changes in enforcement of existing laws or regulations applicable to our operations or those of our agents may also adversely affect our business. Regulatory changes could lead to business disruptions, increased competition, could require us to change certain of our business practices and could expose us to additional costs and liabilities as well as reputational harm. For example, the Insurance Business Act was amended in July 2010, as a result of which insurance companies became subject to stricter regulations on insurance product solicitation and customer product suitability assessment requirements. In particular, such amendments to the Insurance Business Act introduced certain requirements relating to advertisement of insurance products, including, among others, certain mandatory disclosure as well as certain procedures to be complied with by insurance companies in their advertising activities. Moreover, in March 2014, in response to incidents of large-scale leakages of customer data that were discovered in January 2014, regulators established a comprehensive policy designed to prevent the recurrence of customer data leaks in the financial industry, pursuant to which we are required to distinguish between mandatory information and optional information when collecting customer information.

Our operations are also subject to the risk of new tax rules and regulations that may adversely affect the tax treatment of insurance premiums or benefits for policyholders, which can lead to a decrease in sales of the affected insurance products, as well as an increase in the level of surrenders and withdrawals. For example, the recently amended Income Tax Law (amended December 20, 2016) and its enforcement decree (amended February 3, 2017), which are applicable to insurance policies issued on or after April 1, 2017, reduced the amount of maximum cumulative premiums of single payment premium savings insurance products that could qualify for a tax exemption from Won 200 million per person to Won 100 million per person. In addition, such amendments established a maximum limit of Won 1.5 million per person per month for the monthly premiums of regular (monthly) payment premium savings insurance products that could qualify for a tax exemption, which previously were not capped. Our business and results of operations could be materially and adversely affected by these and similar new developments in applicable tax laws and regulations. For a discussion of the principal areas of regulation to which our businesses are subject, see "Regulation and Supervision."

The FSS also conducts audits of Korean life insurance and property and casualty insurance companies on an as-needed basis to determine whether there are any violations of applicable laws, consumer protection issues or regulatory concerns. In addition to conducting audits, the FSS and other regulatory bodies have the authority to review our products, transactions and business practices and those of our agents and employees and to bring regulatory actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties, sanctions or prohibitions or restrictions on our business activities or provision of additional reserves, any of which could have a material adverse effect on our business, reputation, results of operations and financial condition. The Korean life insurance and property and casualty insurance industries may receive increasing scrutiny from regulators, and the regulators may become more likely to take enforcement actions in the future.

The FSC may impose burdensome measures on us if it deems us to be financially unsound.

If the FSC deems our financial condition to be unsound, or if we fail to meet applicable regulatory standards such as the risk-based capital adequacy requirements, the FSC may order, among other things:

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of businesses;
- sales of assets;
- ban on acquisition of high-risk assets;
- closures or downsizing of branch offices;
- mergers with other financial institutions;
- restrictions on distribution of dividends; and
- suspensions of a part or all of our business operations.

If any of these measures are imposed on us by the FSC, they could hurt our business, results of operations and financial condition. In addition, if the FSC orders us to partially or completely reduce our capital, you may lose part or all of your investment.

Our transactions with our subsidiaries and affiliates may be restricted under Korean fair trade regulations.

Our business relationships and transactions with our subsidiaries and affiliates are subject to ongoing scrutiny by the Korea Fair Trade Commission as to, among other things, whether such relationships and transactions constitute undue financial support among companies of the same business group. We engage in various transactions with our subsidiaries and affiliates. In addition, our material business transactions with our subsidiaries and affiliates are subject to approval by our Board of Directors pursuant to the Korean Commercial

Code and the Monopoly Regulation and Fair Trade Act and are subject to public disclosure requirements under the Monopoly Regulation and Fair Trade Act. Any future determinations by the Korea Fair Trade Commission that we have engaged in transactions that violate the fair trade laws and regulations may result in fines or other punitive measures and may have a material adverse effect on our reputation and business.

Our transactions with related parties are subject to close scrutiny by the Korean tax authorities.

Under Korean tax law, there is an inherent risk that our transactions with our subsidiaries, affiliates or any other person or company that is related to us may be challenged by the Korean tax authorities if such transactions are viewed as having been made on terms that were not on an arm's-length basis. If the Korean tax authorities determine that any of our transactions with related parties were not on an arm's-length basis, we would not be permitted to deduct the amount equivalent to such undue financial support as expenses, which may have adverse tax consequences for us.

Risks Relating to Korea

If economic conditions in Korea deteriorate, our current business and future growth could be materially and adversely affected.

We are incorporated in Korea and substantially all of our operations are conducted in Korea. As a result, we are subject to economic, political, legal and regulatory risks specific to Korea. 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.

Developments that could have an adverse impact on Korea's economy in the future include:

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, including in the wake of a referendum in the United Kingdom in June 2016 to exit from the European Union;
- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi), 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 (such as the ongoing controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States commencing in March 2017 and the ensuing economic and other retaliation measures imposed by China against Korea);
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;
- investigations of large Korean business groups and their senior management for bribery, embezzlement and other 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;
- social and labor unrest;

- further decreases in the market prices of Korean real estate;
- the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;
- a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased government budget deficit;
- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies (including those in the shipbuilding and shipping sectors), their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at 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;
- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the supply of oil or sudden increase in the price of oil;
- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of the Securities.

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 and long-range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program and it conducted a series of ballistic missile tests in 2016 and the first nine months of 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.
- 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 program), 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 demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized 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.

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 further military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations.

There are special risks involved with investing in securities of Korean companies, including the possibility of restrictions being imposed by the Government in emergency circumstances as well as accounting and corporate disclosure standards that differ from those in other jurisdictions.

You should carefully consider the risk factors listed in this section, together with all of the other information included in this offering circular, before you decide to purchase the Securities. As we are a Korean company, there are risks associated with investing in our securities that are not typical for investments in securities of U.S. or European companies. As a Korean company, we operate in a business and cultural environment that is different from that of other countries.

Under the Korean Foreign Exchange Transaction Law, if the Government determines that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Strategy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or from disposition of such securities or other transactions involving foreign exchange.

In addition, we prepare and present our financial statements in accordance with K-IFRS, which differ in many material respects from accounting principles applicable to companies in certain other countries. We also make regulatory filings and disclosures regarding other aspects of our business in accordance with applicable rules and regulations and accepted practice in Korea. These filing and disclosure rules and practices differ in many material respects from those applicable to companies in certain other countries. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. In making an investment decision, investors must rely upon their own examination of our company, the terms of the Securities and the financial and other information contained in this offering circular.

Risks Relating to the Securities

The Securities may not be a suitable investment for all investors.

Each potential investor in the Securities 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 Securities, the merits and risks of investing in the Securities and the information contained in 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 Securities and the impact the Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is denominated in a currency different from that of the potential investor;
- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant 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.

The Securities are complex investment securities. Sophisticated institutional investors generally do not purchase complex investment securities as stand-alone investments. They purchase complex investment securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Securities are subordinated obligations.

The Securities will constitute unsecured and subordinated obligations of the Issuer. In the event of the Winding-Up (as defined in "Terms and Conditions of the Securities") of the Issuer, the rights of holders to receive payments in respect of the Securities will rank senior to the holders of all Junior Obligations (as defined in "Terms and Conditions of the Securities") of the Issuer but junior to the claims of all of its other present and future senior and subordinated creditors, other than the claims holders of Parity Obligations (as defined in "Terms and Conditions of the Securities") of the Issuer. Accordingly, in the event of a Winding-Up of the Issuer, a holder of Securities may not receive a full return of the principal amount of the Securities it holds and may lose a part or all its investment.

Holders of Securities may not receive Distributions if the Issuer elects to cancel them or if a Capital Deficiency Event has occurred and is continuing.

The Issuer may, at its sole discretion, elect to cancel any scheduled Distributions (as defined in "Terms and Conditions of the Securities") on the Securities for any period of time, unless the Issuer has declared, paid or made any dividend, distribution or other payment in respect of, or redeemed or purchased, any Junior Obligations or Parity Obligations (other than any such payment, redemption or purchase that is mandatory pursuant to the terms thereof) during the 12-month period ending on the tenth Business Day (as defined in "Terms and Conditions of the Securities") prior to the scheduled payment date for the applicable Distribution. The Issuer is not subject to any limits as to the number of times it may thus cancel Distributions on the Securities. In addition, if a Capital Deficiency Event (as defined in "Terms and Conditions of the Securities") with respect to the Issuer has occurred and is continuing as at the tenth Business Day prior to any scheduled payment date for a Distribution on the Securities, the relevant Distribution will not be due and payable and will be cancelled. Subject to certain limited exceptions, in the event of any cancellation of scheduled Distributions on the Securities as described above, the Issuer would be restricted from making any discretionary dividend, distribution or other payments on, or any discretionary redemptions or buy-backs of, any of its Junior Obligations (including the Issuer's common shares) or Parity Obligations until the next following scheduled payment date on which the Issuer pays the scheduled Distribution in full.

A Capital Deficiency Event would be triggered upon (i) the Issuer becoming designated as an "insolvent financial institution" under subparagraph 2 of Article 2 of the Act on the Structural Improvement of the Financial Industry, as amended or modified from time to time, or (ii) either (1) the issuance of a management improvement recommendation, a management improvement requirement or a management improvement order, or (2) the imposition of emergency measures, by the FSC against the Issuer.

Under subparagraph 2 of Article 2 of the Act on Structural Improvement of the Financial Industry, an "insolvent financial institution" is defined as a financial institution that is:

- determined by the FSC or the Deposit Insurance Committee established within the KDIC (the "DIC"), based on an actual survey of such financial institution's business operations, as (i) having liabilities that exceed its assets (each as valued and calculated in accordance with standards established by the FSC), or (ii) facing apparent difficulty in its normal operations because its liabilities exceed its assets (each as valued and calculated in accordance with standards established by the FSC) as a result of the occurrence of a major financial scandal or the accrual of non-performing loans;
- subject to a suspension of payments of claims (including deposits) or repayments of money borrowed from other financial institutions; or
- determined by the FSC or the DIC to be unable to make payments of claims (including deposits) or repayments of money borrowed, without external support or additional borrowings (other than borrowings accruing from ordinary course financial transactions).

Article 7-17 of the Regulation on Supervision of Insurance Business provides that the FSC shall issue a management improvement recommendation to an insurance company where:

- its risk-based capital adequacy ratio is 50% or higher but lower than 100%;
- the overall comprehensive risk grade given to the insurance company by the FSS under its Risk Assessment and Application System evaluation is 3 (less than satisfactory) or higher but the risk grade for solvency margin is 4 (deficient) or lower;
- the overall comprehensive risk grade given to the insurance company by the FSS under its Risk Assessment and Application System evaluation is 3 (less than satisfactory) or higher but the risk grade for any two of insurance risk, interest risk or investment risk is 4 (deficient) or lower; or
- the FSS deems it clear that the insurance company would fall under any of the criteria above due to the occurrence of significant financial incidents or non-performing assets.

Article 7-18 of the Regulation on Supervision of Insurance Business provides that the FSC shall issue a management improvement requirement to an insurance company where:

- its risk-based capital adequacy ratio is 0% or higher but lower than 50%;

- the overall comprehensive risk grade given to the insurance company by the FSS under its Risk Assessment and Application System evaluation is 4 (deficient) or lower; or
- the FSS deems it clear that the insurance company would fall under either of the criteria above due to the occurrence of significant financial incidents or non-performing assets.

Article 7-19 of the Regulation on Supervision of Insurance Business provides that the FSC shall issue a management improvement order to an insurance company where:

- the insurance company constitutes an insolvent financial institution under the Act on Structural Improvement of the Financial Industry as described above; or
- its risk-based capital adequacy ratio is lower than 0%.

Article 7-43 of the Regulation on Supervision of Insurance Business provides that the FSC shall cause the governor of the FSS to impose emergency measures on an insurance company where:

- a drastic deterioration in the liquidity of the insurance company, due to the occurrence of events such as widespread termination of policies by existing policyholders, causes it to experience, among others, shortages of reserves and assets for payment of insurance claims or an inability to repay its external debts; or
- it becomes impracticable or impossible for the insurance company to conduct normal business operations due to the occurrence of events such as suspension of its business or sales activities, widespread termination of policies by existing policyholders, or a labor dispute.

Under Article 7-43(2) of the Regulation on Supervision of Insurance Business, such emergency measures may include (i) restrictions on acceptance of insurance premiums and provision of loans by the insurance company; (ii) a suspension on payment of all or a part of insurance claims by the insurance company; (iii) a prohibition on repayment of debts by the insurance company; (iv) mandatory dispositions of the insurance company's assets; (v) mandatory suspension of business; (vi) management of the insurance company's assets and operations by a trustee; or (vii) transfer of contracts to a third party.

Historically, the Issuer has not been subject to any events that would qualify as a Capital Deficiency Event. However, there is no guarantee that the Issuer will not be subject to a Capital Deficiency Event in the future.

Any cancellation of Distributions on the Securities as described above will not constitute a default under the Securities for any purpose. Furthermore, Distributions on the Securities are non-cumulative. Accordingly, if any Distribution is cancelled as described above, the right of holders of the Securities to receive such Distribution will be lost, and the Issuer will have no further obligation to pay such Distribution.

Any cancellation of a Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the above-described Distribution cancellation provisions of the Securities, the market price of the Securities may be more volatile than the market prices of debt securities on which original issue discount or interest accrues that are not subject to such cancellations and may be more sensitive generally to adverse changes in our business, results of operations or financial condition.

The remedies that are available to holders in the event of a non-payment of the Securities are limited.

As described above, cancellations of scheduled Distributions at the Issuer's election or upon the occurrence and during the continuation of a Capital Deficiency Event will not constitute a default under the Securities. In addition, the remedies available to holders in the event of other non-payments of the Securities will be limited. Specifically, if the Issuer fails to make other payments, including principal payments, in respect of the Securities for a period of ten days or more after the due date for such payment, holders holding 10% or more of the aggregate principal amount of the outstanding Securities may, subject to satisfaction of the relevant requirements of applicable law, institute proceedings for the Winding-Up of the Issuer and/or prove in the Winding-Up of the Issuer and/or claim in the liquidation of the Issuer for the principal amount of the Securities plus any accrued but unpaid Distributions (other than any Distributions which have been cancelled in accordance with the terms of the Securities). See "— The Securities are subordinated obligations."

The Securities have no fixed maturity date and holders have no right to call for redemption of the Securities.

The Securities have a 30-year term which will be automatically extended for additional 30 years on the initial maturity date and each subsequent maturity date unless the Issuer elects to redeem the Securities. Accordingly, the Securities have no fixed final maturity date. In addition, holders have no right to call for the redemption of the Securities. Although the Issuer may redeem the Securities at its option on November 9, 2022 and on each Distribution Payment Date (as defined in "Terms and Conditions of the Securities") thereafter, or at any time after five years from the Issue Date upon the occurrence of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event (each as defined in "Terms and Conditions of the Securities"), there are limitations on redemption of the Securities, including a requirement to obtain the prior approval of the FSS and satisfaction of certain minimum solvency margin ratio thresholds, as described under "Terms and Conditions of the Securities — Redemption and Purchase."

The Issuer may redeem the Securities under certain circumstances.

As described above, the Securities may be redeemed at the Issuer's option (in whole but not in part) on November 9, 2022 and on each Distribution Payment Date thereafter, in each case subject to the satisfaction of certain regulatory conditions. The Securities may also be redeemed at the Issuer's option (in whole but not in part) at any time after five years from the Issue Date upon the occurrence of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event, in each case subject to the satisfaction of certain regulatory conditions.

The relevant redemption amount paid to holders may be less than the then-current market value of the Securities. In addition, the date on which the Issuer elects to redeem the Securities may not accord with the preference of holders of Securities. This may be disadvantageous to holders in light of market conditions or the individual circumstances of the holders. In addition, a holder may not be able to reinvest the redemption proceeds in comparable securities at an effective interest rate at the same level as that of the Securities.

There is no limitation on issuing senior or pari passu securities.

There is no restriction on the amount of securities, guarantees or other liabilities which the Issuer may issue or incur and which rank senior to, or pari passu with, the Securities. The issuance of any such securities or the incurrence of any such other liabilities by the Issuer may reduce the amount (if any) recoverable by holders of Securities on a Winding-Up of the Issuer and may increase the likelihood of a cancellation of Distributions on the Securities. Further, the terms of such securities or other liabilities may include provisions resulting in the Issuer being required to cancel Distributions on the Securities in circumstances where distributions, interest or other payments on such other securities or liabilities are cancelled. The issuance of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the market price of the Securities and the ability of holders to sell their Securities.

The ratings assigned to the Securities may be lowered or withdrawn in the future.

The Securities are expected to be rated "Baa3" by Moody's and "BBB-" by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure investors that a rating assigned to the Securities will remain for any given period of time or that a rating assigned to the Securities will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of Securities of any such revision, suspension or withdrawal. A revision, suspension, or withdrawal at any time of a rating assigned to the Securities may adversely affect the market price of the Securities.

The liquidity and market price of the Securities may be volatile.

The market price and trading volume of the Securities may be highly volatile. Factors such as changes in our revenues, earnings and cash flows, proposals for new investments, strategic alliances or acquisitions or dispositions, fluctuations in interest rates or in the market price of securities of comparable companies, government regulations and changes thereof applicable to the industries in which we operate and general economic conditions could cause the market price or trading volume of the Securities to change suddenly and dramatically. There is no assurance that such developments will not occur in the future.

An active trading market for the Securities may not develop.

The Securities are a new issue of securities for which there is currently no trading market. No assurance can be given that an active trading market for the Securities will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Securities or the price at which holders will be able to sell their Securities. The Underwriters are not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Underwriters.

Risks Relating to Forward-Looking Statements

This offering circular contains forward-looking statements that are our management's present expectations of future events and are subject to certain 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 our business discussed above, other factors could cause actual results to differ materially from those described in the various forward-looking statements contained in this offering circular. These factors include, but are not limited to, the following:

- general economic, business and political conditions;
- adverse trends in regulatory, legislative and judicial developments;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- changes in interest rates;
- our leverage and our ability to meet our debt obligations;
- declines in consumer confidence;
- changes in competitive conditions in the Korean life insurance and property and casualty insurance industries; and
- conditions in the financial markets.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance may not be fully realized.

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this offering circular. Except as required by law, we are not under any obligation, and expressly disclaim 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 us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

We expect to use the net proceeds from the Offering for general corporate purposes.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate. We do not intend to imply 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.

Period	At End of Period	Average Rate[1]	High	Low
	(Won per US$1.00)			
2012	₩1,071.1	₩1,126.9	₩1,181.8	₩1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017 (through November 1)	1,121.2	1,138.0	1,208.5	1,112.5
January	1,157.8	1,185.1	1,208.5	1,157.8
February	1,132.1	1,144.9	1,165.5	1,131.0
March	1,116.1	1,134.8	1,158.2	1,112.5
April	1,130.1	1,132.7	1,145.8	1,113.8
May	1,123.9	1,125.3	1,134.5	1,117.1
June	1,139.6	1,130.0	1,142.2	1,118.4
July	1,119.1	1,134.4	1,155.8	1,112.5
August	1,122.8	1,130.8	1,146.3	1,118.0
September	1,146.7	1,131.6	1,146.7	1,122.7
October	1,125.0	1,131.6	1,145.7	1,124.7
November (through November 1)	1,121.2	1,121.2	1,121.2	1,121.2

Source: Seoul Money Brokerage Services, Ltd.

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

CAPITALIZATION

The following table sets forth our capitalization (defined as the sum of our long-term borrowings, net of current portion, and our total equity) as of June 30, 2017, on an actual basis and adjusted to give effect to the issuance of the Securities offered hereby.

You should read the information set forth below in conjunction with "Selected Financial and Operating Data" and our financial statements appearing elsewhere in this offering circular.

Other than as set forth below, there has been no material change in our capitalization since June 30, 2017.

	As of June 30, 2017	
	Actual	**As adjusted**(1)
	(In billions of Won)	
Long-term borrowings (net of current portion, if any)	₩ 501	₩ 501
Equity:		
Share capital	68	68
Hybrid bond	35	35
Additional paid-in capital	98	98
Other components of equity	428	428
Retained earnings	921	921
Securities offered hereby	—	566
Non-controlling interests	214	214
Total equity	1,765	2,330
Total capitalization	₩2,266	₩2,831

(1) Reflects net proceeds of US$496,350,000 (net of underwriting discounts and commissions but prior to deducting other offering expenses) from the Offering, translated into Won at the Market Average Exchange Rate in effect as of June 30, 2017. No representation is made that the Won or U.S. dollar amounts referred to in this offering circular could have been or could be converted into U.S. dollars or Won, as the case may be, or at any particular rate or at all.

SELECTED FINANCIAL AND OPERATING DATA

The following tables set forth our selected financial and operating data. Our selected financial data as of and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from our annual consolidated financial statements included elsewhere in this offering circular. Our selected financial data as of June 30, 2017 and for the six months ended June 30, 2016 and 2017 set forth below has been derived from our unaudited condensed consolidated interim financial statements included elsewhere in this offering circular. Our financial statements included in this offering circular have been prepared in accordance with K-IFRS, which differ in certain significant respects from generally accepted accounting principles in other countries.

Summary Statements of Comprehensive Income Data

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating revenue:					
Insurance premium income	₩6,428	₩ 7,981	₩ 7,993	₩4,062	₩3,674
Reinsurance income	520	591	621	329	313
Interest income	772	839	908	457	473
Compensation income	—	0	—	—	—
Gain on financial assets at fair value through profit or loss	84	88	50	33	54
Gain on valuation and disposal of loans and other receivables	—	4	11	9	5
Gain on foreign currency translation and transactions	91	179	194	12	25
Gain on disposal and valuation of derivatives	34	36	69	65	323
Other operating income	110	140	148	72	99
Fees from separate accounts	215	145	136	82	77
Separate account revenue	31	46	57	34	50
Total operating revenue	8,285	10,049	10,187	5,154	5,093
Operating expenses:					
Change in reserves for insurance contracts	2,690	3,949	3,569	1,957	1,459
Insurance claims paid	3,381	3,684	4,180	1,993	2,109
Reinsurance expenses	522	588	603	308	318
Loss on compensation receivables	1	—	1	1	1
Business expenses	495	562	615	340	281
Amortization of deferred policy acquisition costs	607	610	604	310	277
Claim handling expenses	51	54	57	28	29
Property administration expenses	40	42	50	21	21
Loss on valuation and disposal of securities through profit or loss	12	27	23	15	8
Loss on valuation and disposal of trade receivables	1	6	11	3	6
Loss on foreign currency translation and transactions	17	13	46	48	296
Loss on valuation and disposal of derivatives	99	190	212	25	44
Interest expenses	28	34	33	17	17
Other operating expenses	13	38	29	12	17
Fees for separate accounts	149	73	32	22	7
Separate account expenses	31	46	57	34	50
Total operating expenses	8,136	9,917	10,118	5,133	4,941

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating profit	150	132	69	21	153
Non-operating income	9	13	10	2	12
Non-operating expenses	13	14	19	4	13
Profit before income tax	146	131	60	19	152
Income tax expense	34	25	(8)	(20)	32
Profit for the period	₩ 111	₩ 107	₩ 68	₩ 39	₩ 119
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property and equipment	1	1	1	1	48
Remeasurements of net defined benefit liabilities	0	0	(0)	0	(0)
Items that may be subsequently reclassified to profit or loss:					
Changes in the fair value of available-for-sale financial assets	249	(177)	(121)	218	(14)
Gain (loss) on valuation of held-to-maturity financial assets	—	224	124	(10)	(15)
Cash flow hedge	13	(4)	17	0	(10)
Other comprehensive income of separate accounts	16	1	(8)	21	1
Other comprehensive income for the period, net of tax	279	45	12	229	10
Total comprehensive income for the period	₩ 390	₩ 151	₩ 81	₩ 268	₩ 129
Profit is attributable to:					
Owners of the Parent Company	97	99	55	33	95
Non-controlling interest	15	8	13	6	25
	₩ 111	₩ 107	₩ 68	₩ 39	₩ 119
Total comprehensive income for the period is attributable to:					
Owners of the Parent Company	341	133	74	248	101
Non-controlling interest	49	18	7	20	29
	₩ 390	₩ 151	₩ 81	₩ 268	₩ 129
Earnings per share for profit attributable to the equity holders of the Parent Company	₩7,112	₩ 7,267	₩ 4,081	₩2,451	₩6,965

Summary Statements of Financial Position Data

	As of December 31,			As of June 30,
	2014	2015	2016	2017
		(in billions of Won)		
Assets				
Cash and cash equivalents	₩ 373	₩ 491	₩ 344	₩ 151
Deposits	1,221	1,102	457	399
Securities	12,837	16,179	20,058	21,316
Loans receivables	7,040	8,227	8,740	8,815
Property and equipment	286	318	317	334
Investment property	651	626	627	674
Intangible assets	125	121	117	119
Derivative assets	37	21	24	82
Current tax assets	36	54	67	31
Other financial assets	721	780	837	776
Other assets	1,460	1,445	1,382	1,315
Separate account assets	2,229	2,471	2,667	3,001
Total assets	₩27,016	₩31,833	₩35,638	₩37,012
Liabilities				
Insurance contract liabilities	₩21,886	₩25,837	₩29,401	₩30,861
Policyholders' equity adjustment	93	90	67	59
Borrowings	450	501	486	501
Deferred tax liabilities	129	150	145	167
Derivative liabilities	55	173	249	94
Net defined benefit liabilities	1	0	1	1
Provisions	7	10	11	9
Other financial liabilities	351	396	352	343
Other liabilities	222	386	352	222
Separate account liabilities	2,431	2,760	2,973	2,990
Total liabilities	25,626	30,303	34,038	35,247
Equity				
Share capital	68	68	68	68
Hybrid bond	—	—	—	35
Additional paid-in capital	91	98	98	98
Other components of equity	369	403	422	428
Retained earnings	682	781	826	921
Non-controlling interests	180	179	185	214
Total equity	1,391	1,530	1,600	1,765
Total equity and liabilities	₩27,016	₩31,833	₩35,638	₩37,012

Operating Data of the Issuer (Including Separate Accounts)

	As of or for the Year Ended December 31,			As of or for the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, except as otherwise indicated)				
Total policies in force (in thousands)	2,665	2,946	3,048	3,027	3,047
Number of new policies sold (in thousands)	688	668	525	270	183
Gross premiums[(1)(2)]	₩4,328	₩5,633	₩5,674	₩2,625	₩2,346
First year premiums[(3)]	355	697	397	257	77
First year regular payment premiums	86	126	84	52	23
First year single payment premiums	269	571	313	204	54
In-force face amount growth ratio[(4)]	1.1%	1.1%	1.0%	1.1%	1.0%
New policy growth ratio[(5)]	23.9%	25.2%	17.8%	20.8%	11.0%
Lapse and surrender ratio[(6)]	10.4%	9.9%	10.6%	11.4%	10.4%
Policy persistency ratio[(7)]:					
13-month	86.5%	84.1%	82.4%	83.5%	82.1%
25-month	56.9%	70.7%	69.9%	70.1%	69.4%
Operating expense ratio[(8)]	5.5%	5.5%	6.2%	7.3%	6.9%
Risk-based capital adequacy ratio (standalone)[(9)]	218.3%	183.1%	168.7%	198.0%	189.3%
Risk-based capital adequacy ratio (consolidated)[(9)]	N/A[(10)]	N/A[(10)]	145.4%	N/A[(10)]	162.2%
Return on equity[(11)]	8.0%	7.6%	2.8%	3.5%	8.9%
Return on assets[(12)]	0.4%	0.4%	0.2%	0.2%	0.5%

(1) The amount of premiums recognized in a specified period in respect of policies in force during such period, on a standalone basis.

(2) Includes (i) the portion of premiums paid by variable insurance policyholders that relates to benefits based on the performance of the underlying investment assets and (ii) premiums from retirement pension products, on a standalone basis, which are not recognized as premium income in our statements of comprehensive income.

(3) Includes the portion of premiums paid by variable insurance policyholders that relates to benefits based on the performance of the underlying investment assets, on a standalone basis, which are not recognized as premium income in our statements of comprehensive income, and is prior to deduction of any refunds of previously paid premiums.

(4) The ratio of (i) the difference between the total face amount of policies that have not expired or been terminated as of the end of the specified period and the aggregate face amount of policies in force at the beginning of such period to (ii) the aggregate face amount of policies in force at the beginning of such period, on a standalone basis.

(5) The ratio of the aggregate face amount of policies sold during the specified period (annualized for interim periods) to the aggregate face amount of policies in force at the beginning of such period, on a standalone basis.

(6) The ratio of the aggregate face amount of all policies that were terminated or expired and were not renewed during the specified period to the sum of (i) the aggregate face amount of policies in force at the beginning of such period and (ii) the aggregate face amount of policies sold during such period, on a standalone basis.

(7) The ratio of (i) the sum of the aggregate face amount of the policies that remained in force at the 13th month or 25th month policy anniversary date, as applicable, falling within the specified period to (ii) the sum of the aggregate face amount of all policies sold that would have had such a policy anniversary date, as calculated in accordance with the applicable requirements of the FSS, on a standalone basis.

(8) The ratio of (i) the sum of policy acquisition and maintenance expenses for the specified period (before adjusting for deferred acquisition costs) to (ii) general account and separate account premium income for such period, on a standalone basis.

(9) Calculated in accordance with the applicable requirements of the FSS. See "Regulation and Supervision — Risk-Based Supervision of Insurance Companies — Risk-Based Capital Adequacy Requirements." Effective December 31, 2016, the FSS required risk-based capital adequacy ratios to be calculated on a consolidated basis. As such, the Issuer's risk-based capital adequacy ratios on a standalone basis as of December 31, 2016 and June 30, 2017 are provided for reference purposes only. For information regarding

our available capital for purposes of calculating our statutory risk-based capital adequacy ratio as of June 30, 2017, see "Business — Risk-Based Capital Adequacy Requirements."

(10) Not applicable.

(11) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total equity for such period, on a standalone basis.

(12) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total assets for such period, on a standalone basis.

Operating Data of Heungkuk Fire & Marine

	As of or for the Year Ended December 31,			As of or for the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won, except as otherwise indicated)				
Total policies in force (in thousands)	4,833	4,962	4,782	4,869	4,608
Number of new policies sold (in thousands)	1,863	1,692	1,344	718	470
Gross direct written premiums[1]	₩3,028	₩3,333	₩3,345	₩1,688	₩1,609
Net earned premiums[2]	₩2,519	₩2,776	₩2,756	₩1,392	₩1,321
Loss ratio[3]	85.0%	87.5%	88.6%	86.8%	89.3%
Operating expense ratio[4]	22.3%	21.1%	21.0%	22.0%	19.4%
Risk-based capital adequacy ratio (standalone)[5]	163.4%	150.9%	154.9%	151.1%	168.5%
Risk-based capital adequacy ratio (consolidated)[5]	N/A[6]	N/A[6]	154.9%	N/A[6]	168.5%
Return on equity[7]	9.1%	4.7%	6.5%	4.2%	20.2%
Return on assets[8]	0.5%	0.3%	0.4%	0.2%	1.2%

(1) The amount of direct written premiums recognized in a specified period in respect of policies in force during such period, on a standalone basis.

(2) The sum of (i) gross direct written premiums for the specified period, (ii) reinsurance premium income for such period, (iii) return of surrender refunds for such period and (iv) total unearned premiums deferred from the previous period, less the sum of (x) reinsurance expenses for the specified period, (y) surrender refunds for such period and (z) total unearned premiums deferred to the next period, on a standalone basis.

(3) The ratio of (i) total claims paid for the specified period to (ii) net earned premiums for such period, on a standalone basis.

(4) The ratio of (i) the sum of policy acquisition and maintenance expenses for the specified period (before adjusting for deferred acquisition costs) to (ii) net earned premiums for such period, on a standalone basis.

(5) Calculated in accordance with the applicable requirements of the FSS. See "Regulation and Supervision — Risk-Based Supervision of Insurance Companies — Risk-Based Capital Adequacy Requirements." Effective December 31, 2016, the FSS required risk-based capital adequacy ratios to be calculated on a consolidated basis. As such, Heungkuk Fire & Marine's risk-based capital adequacy ratios on a standalone basis as of December 31, 2016 and June 30, 2017 are provided for reference purposes only.

(6) Not applicable.

(7) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total equity for such period, on a standalone basis.

(8) The ratio of (i) profit for the specified period (annualized for interim periods) to (ii) the average total assets for such period, on a standalone basis.

KOREAN INSURANCE INDUSTRY

The following overview of the insurance industry in Korea has been provided for background purposes only. The information presented in this section is derived from various government and private publications. Neither we nor any of our affiliates or advisers, nor the Underwriters or any of their affiliates or advisers, have independently verified the information presented in this section or make any representation as to the accuracy or completeness of the information.

Overview of the Korean Life Insurance Industry

The Korean life insurance market, which has grown steadily over the past decade, recorded total annual premium income of Won 120 trillion in 2016 according to the KLIA. From 2006 to 2016, the aggregate gross life insurance premiums in Korea (which includes premium income from both general and separate accounts) grew at a compounded annual growth rate ("CAGR") of 6.1% according to the KLIA, while, during the same period, Korea's overall nominal gross domestic product ("GDP") grew at a CAGR of 3.4% according to the International Monetary Fund's World Economic Outlook.

Despite substantial growth of Korea's life insurance industry over the years, its penetration and density levels still remain lower than those of other developed markets in Asia such as Taiwan or Hong Kong. Insurance penetration, defined as a country's total premium income as a percentage of its GDP, and insurance density, defined as premium income per capita, are two common metrics for gauging the stage of development of a country's insurance industry. According to Swiss Re Sigma, Korea's life insurance penetration rate of 7.4% in 2016 was lower than the penetration rates for Taiwan and Hong Kong of 16.7% and 16.2%, respectively. Korea's life insurance density level of US$2,050 in 2016 was also lower than Taiwan's and Hong Kong's density levels of US$3,599 and US$7,066, respectively, according to Swiss Re Sigma.

The Korean life insurance industry offers a full range of life insurance products. The KLIA categorizes life insurance products in Korea principally into six product types: death benefit, pure endowment, endowment, group, variable and retirement. Death benefit refers to protection-type insurance products sold to individuals, while pure endowment is mostly comprised of annuities sold to individuals. Endowment refers to savings insurance products sold to individuals. Group products are sold to organizations and include protection-type, savings and annuity insurance products.

As of December 31, 2016, the life insurance industry in Korea was fragmented with 25 registered life insurance providers, of which 16 were classified as domestic and nine were classified as foreign by the FSS. Market share was concentrated among the three largest domestic life insurers by total assets, namely, Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and Kyobo Life Insurance Co., Ltd., which collectively accounted for approximately 56.1% of the market in terms of total assets (on a standalone basis) as of December 31, 2016, according to the KLIA. The remaining 13 small- to medium-sized domestic life insurers, including the Issuer, and nine foreign life insurers accounted for 30.0% and 13.9% of the market, respectively, in terms of total assets as of December 31, 2016, according to the KLIA.

With respect to total gross premiums of general and separate accounts (on a standalone basis), the three largest domestic life insurers collectively accounted for approximately 46.2% of the market in 2016, according to the KLIA. The remaining small- to medium-sized domestic life insurers accounted for 37.2% of the market, while foreign life insurers accounted for 16.6% of the market for the same period, according to the KLIA.

Overview of the Korean Property and Casualty Insurance Industry

The Korean property and casualty, or non-life, insurance market grew at a CAGR of 13.7% from 2006 to 2016, recording total direct written premiums of Won 77 trillion in 2016 according to the GIAK.

With the significant growth over the past decade, the Korea's property and casualty insurance industry had a relatively high penetration rate at 4.7% in 2016, ranking fourth in the world, which was higher than those of other developed Asian countries such as Taiwan and Japan, which were at 3.3% and 2.4%, respectively, according to Swiss Re Sigma. Korea's property and casualty insurance density ratio in 2016 was at US$1,312, ranking first in Asia, followed by those of Japan and Singapore, which were at US$928 and US$882, respectively, also according to Swiss Re Sigma.

Korean property and casualty insurance companies primarily offer long-term products, automobile products and general property and casualty insurance products, as well as other insurance products such as reinsurance and guarantee insurance products. Long-term insurance products, accounting for 62.4% of total direct premiums of Korean property and casualty insurance market in 2016 according to the GIAK, have coverage periods of at least three years and share similar characteristics to life insurance products covering, for instance, medical expenses, defined health benefits and accidents, whereas general property and casualty insurance products, which include fire, marine (including cargo) and other types of specialty products, typically provide insurance coverage of one year or less against various types of losses and liabilities. Automobile insurance products offer protection against losses and liabilities incurred as a result of vehicle accidents.

As of December 31, 2016, the Korean property and casualty insurance industry was composed of 32 insurance providers, of which 14 were classified as domestic insurers and 18 were classified as foreign insurers, according to the FSS. Similar to the life insurance industry, market share was concentrated among the four largest domestic property and casualty insurers both by total assets and by total direct premiums, namely Samsung Fire & Marine Insurance Co., Ltd., Hyundai Marine & Fire Insurance Co., Ltd., Dongbu Insurance Co., Ltd. and KB Insurance Co., Ltd., which collectively accounted for approximately 66.7% of the market in terms of total assets and 68.3% in terms of total direct premiums (both on a standalone basis) as of and for the year ended December 31, 2016, according to the GIAK. The next largest six small- to medium-sized domestic property and casualty insurers, including Heungkuk Fire & Marine, collectively accounted for 24.7% and 26.8% of the market in terms of total assets and total direct premiums, respectively, also according to the GIAK. The remaining market shares were held by foreign property and casualty insurers and domestic insurers focusing on specific product lines such as automobile insurance products, guarantee insurance products or reinsurance products.

Trends in the Korean Insurance Industry

The growth of the life insurance and long-term property and casualty insurance industries in Korea has been driven by certain key industry fundamentals and macro-economic factors, including, among others, shifting customer demographics and increasing health expenditure as well as the growing need for a private health insurance system.

Korea has one of the most rapidly aging populations among the OECD members. In 2000, the proportion of the population aged 65 and over was 7%, while in 2015 such proportion grew to 13% and is projected to grow to 41% by 2060, according to the National Statistics Office. In addition, life expectancy in Korea has increased at a faster rate in past decades than in other developed markets such as the United States and Japan. According to the World Bank, life expectancy in Korea has increased from 71 years in 1990 to 82 years in 2015, while it increased from 75 years to 79 years and 79 years to 84 years in the United States and Japan, respectively, in the same period.

This trend of a rapidly aging population with increasing life expectancy and limited retirement savings has led Koreans to focus more on retirement planning, diversifying away from bank deposit products and into retirement-oriented insurance products such as annuities and variable products. Also, the population's increased longevity presents greater opportunities for sales of protection-type life insurance products such as health and critical illness insurance and long-term insurance products covering medical expenses and accidents.

In addition, Korea had one of the most rapidly increasing health expenditures among the OECD member countries in the past decade, which has been one of the key drivers of the growth in sales of protection-type products in the Korean life insurance industry and long-term insurance products in the Korean property and casualty insurance industry. According to the OECD, health expenditure per capita in Korea increased at a CAGR of 8.3% between 2006 to 2016, which significantly benefited the private insurance sector. However, despite the continued growth of health expenditure in Korea, its portion of GDP, which increased from 5.5% in 2006 to 7.7% in 2016, still remained at one of the lowest levels among OECD member countries, which averaged 9.0% in 2016.

Furthermore, the ratio of public health expenditure to total health expenditure in Korea, which was 56.4% in 2016, remained significantly lower than those of OECD member countries generally, which averaged 72.5%, according to the OECD. The level of protective coverage provided by the public health insurance system in Korea is more limited with respect to critical illness care compared to other advanced OECD member countries. As a result, there is a growing need for a private health insurance system to compensate for the shortfall in coverage provided by the public health insurance system, which is expected to provide Korean insurance companies with an opportunity for future business growth in protection-type and long-term insurance products.

Continued growth of automobile ownership in Korea has increased demand in the automobile insurance sector, which accounted for 21.4% of total direct premiums of the Korean property and casualty insurance industry in 2016. According to the Korea Road Traffic Authority and the GIAK, the total number of registered vehicles in Korea steadily grew from 15.5 million in 2006 to 21.8 million in 2016, while average direct premiums per vehicle have also increased at a rate similar to Korea’s GDP growth rate.

BUSINESS

We are one of the major mid-sized life insurance companies in Korea, offering a wide range of life insurance and investment products to retail customers as well as retirement pension plans and group life insurance products to institutional customers through a variety of distribution and marketing channels. We also engage in the property and casualty insurance business in Korea through our consolidated subsidiary, Heungkuk Fire & Marine, in which we hold a 59.6% equity interest. Our business operations consist primarily of the following:

- **Heungkuk Life Insurance Co., Ltd.**. The Issuer develops and distributes a broad range of individual and group life insurance products that provide protection against a policyholder's death, disability, illness, accident or other events, as well as annuities and savings insurance products. The Issuer also offers variable insurance products and retirement pension plans to address the growing demand for greater investment choices among Korean customers. Leveraging the most longstanding brand name in the Korean life insurance industry and its wealth of industry experience and expertise, the Issuer seeks to offer life insurance products and services that cater to individuals' specific needs at various stages of their lives, based on in-depth analyses of changes in demographic, mortality and investment trends. As of June 30, 2017, the Issuer had approximately 3.0 million life insurance policies in force and approximately 1.7 million individual policyholders.

- **Heungkuk Fire & Marine Insurance Co., Ltd**. As a mid-sized property and casualty insurance company, Heungkuk Fire & Marine develops and distributes a wide spectrum of non-life insurance products, including long-term insurance products that provide protection against losses arising from a policyholder's illness, injuries, property losses or other events while also featuring a savings component. Heungkuk Fire & Marine also offers automobile insurance and other general property and casualty insurance products. As of June 30, 2017, Heungkuk Fire & Marine had approximately 4.6 million property and casualty insurance policies in force and approximately 2.8 million individual policyholders.

We seek to pursue a profit and quality-oriented growth strategy with an emphasis on selling higher-margin life insurance, variable insurance and long-term property and casualty insurance products while pursuing cost efficiencies. We are also strategically focused on product development with the objective of increasing the insurance coverage provided to our customers and attracting new business by introducing new products that are aimed at meeting the evolving investment and protection needs of the rapidly aging Korean population, as well as changes in the regulatory environment.

Taking advantage of our well-recognized "Heungkuk" brand, we have solidified our position in the highly competitive Korean life insurance and property and casualty insurance markets through a multi-channel distribution and marketing platform led by our extensive bancassurance and agency channels. We have longstanding bancassurance relationships with Korea's leading commercial banks, securities companies and savings banks, as well as marketing arrangements with a variety of general and individual agencies. Our distribution and marketing platform also includes a nationwide network of approximately 2,335 tied agents engaged by the Issuer and 3,882 tied agents engaged by Heungkuk Fire & Marine as of June 30, 2017, who are our exclusive sales agents, as well as a direct marketing channel. We plan to continue enhancing the efficiency and productivity of our distribution and marketing channels to optimize their capabilities based on customer segmentation and targeted product offerings and to explore opportunities for generating marketing synergies between our life insurance and property and casualty insurance businesses.

We were incorporated in 1950 and were acquired by the Taekwang Group in 1973. In 2006, we became the controlling shareholder of Ssangyong Fire & Marine Insurance Co., Ltd., which was incorporated in 1948, and subsequently changed its name to Heungkuk Fire & Marine in 2009. Heungkuk Fire & Marine's common shares are publicly listed and traded on the KRX KOSPI Market of the Korea Exchange. We remain a member of the

Taekwang Group, which currently consists of 26 companies, three of which are listed on the KRX KOSPI Market of the Korea Exchange, and operates primarily in the fiber and petrochemical, finance and media sectors. See "Taekwang Group."

Our operating revenues were Won 8,285 billion in 2014, Won 10,049 billion in 2015 and Won 10,187 billion in 2016, and Won 5,154 billion in the first half of 2016 and Won 5,093 billion in the first half of 2017. We reported profit for the period of Won 111 billion in 2014, Won 107 billion in 2015 and Won 68 billion in 2016, and Won 39 billion in the first half of 2016 and Won 119 billion in the first half of 2017. We had total assets of Won 37,012 billion and total equity of Won 1,765 billion as of June 30, 2017.

Our headquarters are located at 68, Saemunan-ro, Jongro-gu, Seoul 03184, Korea. The Issuer's website is http://www.heungkuklife.co.kr, and Heungkuk Fire & Marine's website is http://www.heungkukfire.co.kr.

Our Strengths

We are a leading mid-sized life insurance company in Korea differentiated by the following strengths:

Limited exposure to negative interest spread risk

We have relatively less exposure to negative interest spread risk compared to most other major life insurers in Korea, as we have historically had a comparatively lower proportion of high guaranteed rate of return life insurance products in our product portfolio. This is in contrast to other Korean life insurers with long operating history, many of which had focused in the 1990s on savings-type insurance products, fixed annuities and other products with relatively high guaranteed crediting rates, primarily as a result of the then-prevailing high market interest rates.

In 2016, we believe that our negative interest spread, defined as the difference between the average crediting rate on our total in-force policies and the average yield on our investment portfolio, on a standalone basis, was significantly lower than that of our historically larger competitors. Such difference stems from our limited exposure to a legacy portfolio of high guaranteed rate of return products and our prudent asset-liability management focusing on new insurance products that provide returns based on floating interest rates, as well as our efforts to better match the duration of our interest-earning general account investment assets with the duration of our interest-bearing policy liabilities.

Given such limited exposure, we believe that we are uniquely positioned in the Korean life insurance market amid continued concern regarding negative spreads due to the prolonged low interest rate environment.

Solid earnings from high-margin protection products and value-driven strategy

In recent years, we have been focusing on enhancing expected margins from new sales of our insurance products, rather than increasing our sales volume, while seeking to develop and market insurance products that are more capital efficient and pose relatively less risk to our capital base. As part of this strategy, we implemented a significant revamping of our low-margin life insurance product portfolio in October 2016 and have been expanding our variable and protection-type life insurance product offerings, which generally exhibit higher margins compared to savings- and annuity-type life insurance products.

The gross premiums (including separate account premiums) of the Issuer's protection-type life insurance products increased from Won 1,247 billion, or 28.8% of its total gross premiums, in 2014 to Won 1,901 billion, or 33.5% of its total gross premiums, in 2016, on a standalone basis. In the first half of 2017, gross premiums (including separate account premiums) of the Issuer's protection-type life insurance products amounted to Won 934 billion, representing 39.8% of its total gross premiums for the period, on a standalone basis. Partly as a result of such strategic effort to focus on higher margin protection-type life insurance products, the Issuer's profit for the period, on a standalone basis, increased from Won 23 billion in the first half of 2016 to Won 59 billion in the first half of 2017.

Diversified and efficient distribution channels

We maintain an extensive and diversified network of distribution and marketing channels consisting of bancassurance, agency, tied agent, direct marketing and corporate sales channels.

As the first life insurance company in Korea to sell products through the bancassurance channel, we have established longstanding partnerships with the leading commercial banks, securities firms and mutual savings banks in Korea. 42.7% of the Issuer's total first year premiums (including separate account premiums other than for retirement pension products) on a standalone basis in 2016 were derived from the bancassurance channel**.** We plan to broaden the scope of our life insurance products offered through the bancassurance channel, especially focusing on higher-margin variable insurance products tailored for the channel.

According to the KLIA, the Issuer had the largest market share in terms of first year general account life insurance premiums in 2016 derived from the agency channel owing to our strong and extensive relationship with our agency partners. The agency channel, which accounted for 39.8% of the Issuer's total first year premiums (including separate account premiums other than for retirement pension products) on a standalone basis in 2016, serves as the main channel for marketing our protection-type life insurance products, and we plan to strengthen the level of cooperation with our agency partners in order to encourage them to more vigorously market and sell our life insurance products.

The tied agent channel, which accounted for 11.0% of the Issuer's total first year premiums (including separate account premiums other than for retirement pension products) on a standalone basis in 2016, functions as one of our core channels for maintaining long-term relationships with our individual customers by promoting and selling our life insurance products on an exclusive basis. As of June 30, 2017, the Issuer had a loyal and well-trained tied agent sales force of over 2,335 agents, with an average tenure of 5.2 years. We are dedicated to continuously strengthening our tied agents' capabilities to better address the needs of our customers. We have also taken measures to streamline and optimize the tied agent channel for our life insurance business in recent years, which we believe will result in an improved cost structure and enhanced productivity of such channel. See "— Our Strategy" and "— Life Insurance Business — Distribution and Marketing Channels of the Issuer — Tied Agent Channel."

High quality investment portfolio with emphasis on stability

We manage a diversified asset portfolio that generates a stable investment return in accordance with our asset and liability management policies while sustaining adequate solvency levels. Under our well-defined risk management framework, we strive to engage in prudent investment decision-making in consideration of the characteristics of our insurance products and other liabilities. In furtherance of such objective, we have started to pursue a strategic asset allocation plan with an increased emphasis on Government and Government-related bonds (domestic) with longer maturities and high credit ratings, which accounted for 31.9% of the total carrying value of the Issuer's domestic debt securities on a stand-alone basis as of June 30, 2017.

We have also been selectively increasing our investments in longer-duration treasury and investment grade corporate bonds in the United States and other overseas markets, which we believe have superior credit, duration and yield characteristics compared to domestic bonds, as part of our efforts to strengthen our asset and liability management, diversify our sources of income and enhance the returns of our investment portfolio.

Our Strategy

Our strategic objective is to seek fundamentally sound and sustainable growth while maintaining a strong capital position, in light of anticipated regulatory changes in the Korean insurance industry. To achieve our objective, we plan to pursue the following strategies:

Achieve value-focused growth

In order to enhance our profitability while preparing for anticipated regulatory changes, we have shifted our business focus in recent years from increasing our sales volume to enhancing expected margins from new sales of insurance products. We have also placed greater emphasis on developing and marketing products that are more capital efficient and pose relatively less risk to our capital base. As a part of such strategy, we plan to continue to strengthen our offering of variable insurance products, which have become more attractive to customers in recent years within Korea's persistent low interest rate environment. We believe that increasing our sales of variable insurance products will not only help us generate stable commission income in the form of management fees, but also lower our premium reserve requirements and reduce our exposure to interest rate risk, thereby enhancing our risk-based capital adequacy ratio.

Improve operational efficiency

We seek to improve our profitability by enhancing the efficiency of our business operations. In recent years, we have launched various initiatives to achieve cost savings and maximize operational efficiency, including measures to streamline and optimize the tied agent channel for our life insurance business by terminating relationships with unproductive tied agents and closing a number of branch offices, as well as strengthening our training programs and adjusting the compensation structures for tied agents. While recruiting and retaining experienced tied agents and enhancing per-agent productivity in the tied agent channel, we plan to focus on expanding our cost-efficient third-party distribution channels such as our bancassurance and agency channels to further strengthen our position as a market leader in such channels. We have also undertaken measures to enhance our insurance underwriting, policy review and claim adjustment processes to further reduce our costs. We believe that, through these cost-saving initiatives, we will be able to further bring down our operating expense ratio and achieve meaningful improvement in our profitability.

Pursue stable and profitable investment opportunities

We seek to manage our investment assets in the best interests of our customers and with a focus on stable and efficient long-term growth in asset value. Utilizing prudent asset and liability management systems and practices and longer-term strategic and shorter-term tactical asset allocations within a disciplined risk management framework, we seek to manage our investment risk at an appropriate level by expanding our investments in stable assets such as Government and Government-related bonds. Additionally, we plan to improve our investment margins by proactively reviewing new investment opportunities, including in overseas securities and alternative investments, that can offer relatively higher returns within acceptable risk limits.

Further explore potential synergies with affiliated companies

We intend to leverage our position as a member company of the Taekwang Group, one of the 50 largest business groups in Korea, to take advantage of potential synergies between the Issuer and Heungkuk Fire & Marine as well as with our other affiliated companies. See "Taekwang Group." In particular, we plan to explore opportunities to:

- further strengthen our vertically integrated insurance business network between the Issuer and Heungkuk Fire & Marine;
- leverage the asset management capabilities of Heungkuk Asset Management Co., Ltd., our Taekwang Group affiliate focusing on the asset management business;

- Utilize the credit rating capacity of our savings bank affiliates, Goryo Savings Bank Co., Ltd. and Yegaram Savings Bank Co., Ltd.; and
- Share customer bases and promote cross-selling between the Issuer and Heungkuk Fire & Marine as well as among affiliated companies such as our asset management and savings bank affiliates as well as T-broad Co., Ltd., our Taekwang Group affiliate engaged in the cable television and high-speed cable internet businesses.

Life Insurance Business

Products and Services of the Issuer

The Issuer offers a variety of life insurance products, including protection-type products that provide a wide range of protection against a policyholder's death, critical illness or other events, as well as annuities and savings insurance, primarily to retail customers. The Issuer also offers retirement pension products and group life insurance products to corporations and institutions. In the individual life insurance category, the Issuer also offers variable insurance products. In addition, the Issuer engages in trust management services.

The Issuer manages its risk exposure and profitability by periodically adjusting its policy features and prices to reflect updated actuarial data and seeking to optimize its product mix. From time to time, the Issuer supplements its existing products by introducing additional riders and enhanced product features.

The following table sets forth information about the Issuer's gross premiums by product type (including premiums for its separate accounts), on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
General account(1)										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 534	12.3%	₩ 805	14.3%	₩1,113	19.6%	₩ 571	21.8%	₩ 511	21.8%
Other protection-type products(2)	657	15.2	683	12.1	729	12.9	359	13.7	386	16.5
Annuities(3)	699	16.1	836	14.8	552	9.7	302	11.5	218	9.3
Savings insurance	1,523	35.2	2,340	41.5	2,266	39.9	1,147	43.7	952	40.6
Group insurance	6	0.1	6	0.1	5	0.1	3	0.1	2	0.1
Subtotal	3,418	79.0	4,670	82.9	4,666	82.2	2,381	90.7	2,070	88.2
Separate accounts(4)										
Individual insurance:										
Variable protection-type products(5)	56	1.3	55	1.0	59	1.0	28	1.1	37	1.6
Variable annuities	107	2.5	82	1.5	76	1.3	38	1.4	37	1.6
Variable savings insurance(6)	101	2.3	76	1.4	55	1.0	31	1.2	20	0.9
Retirement pensions	646	14.9	750	13.3	818	14.4	147	5.6	182	7.8
Subtotal	910	21.0	964	17.1	1,007	17.8	244	9.3	276	11.8
Total	₩4,328	100.0%	₩5,633	100.0%	₩5,674	100.0%	₩2,625	100.0%	₩2,346	100.0%

(1) Includes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs, which is recognized as premium income in our statements of comprehensive income.
(2) Includes term life insurance, health insurance and children's insurance products.
(3) Includes education insurance products.
(4) Reflects the portion of premiums received on variable insurance policies that relates to benefits based on the performance of the underlying investment assets, which is not included in our statements of comprehensive income.
(5) Includes variable whole life insurance and variable universal whole life insurance products.
(6) Includes variable life insurance and variable universal life insurance products.

The following table sets forth information about the Issuer's first year premiums by product type (including first year premiums for its separate accounts other than for retirement pension products), on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016[7]		2017[7]	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In billions of Won, except percentages)									
General account[1]										
Individual insurance:										
Protection-type products:										
Whole life insurance . . .	₩ 48	13.6%	₩113	16.2%	₩168	42.3%	₩118	45.9%	₩20	25.8%
Other protection-type products[2]	12	3.3	11	1.6	13	3.4	7	2.9	8	10.0
Annuities[3]	136	38.4	277	39.8	108	27.1	67	26.2	30	38.6
Savings insurance	146	41.2	288	41.3	95	23.8	57	22.0	11	14.8
Group insurance	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Subtotal	342	96.5	689	98.9	384	96.6	249	97.1	69	89.2
Separate accounts[4]										
Individual insurance:										
Variable protection-type products[5]	1	0.2	1	0.1	3	0.7	1	0.2	3	4.1
Variable annuities	11	3.2	5	0.7	8	2.1	5	2.0	5	6.7
Variable savings insurance[6]	0	0.1	2	0.3	3	0.7	2	0.7	0	0.0
Subtotal	13	3.5	7	1.1	13	3.4	8	2.9	8	10.8
Total	₩355	100.0%	₩697	100.0%	₩397	100.0%	₩257	100.0%	₩77	100.0%

(1) Includes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs, which is recognized as premium income in our statements of comprehensive income.
(2) Includes term life insurance, health insurance and children's insurance products.
(3) Includes education insurance products.
(4) Reflects the portion of premiums received on variable insurance policies that relates to benefits based on the performance of the underlying investment assets, which is not included in our statements of comprehensive income.
(5) Includes variable whole life insurance and variable universal whole life insurance products.
(6) Includes variable life insurance and variable universal life insurance products.
(7) For the first half of 2016 and 2017, first year premiums comprise the amount of premiums recognized in the specified interim period in respect of policies sold during that period.

The following table sets forth information about the Issuer's annualized premium equivalent ("APE") by product type (including APE for separate accounts other than for retirement pension products), on a standalone basis, for the periods indicated. APE for the periods indicated represents the Issuer's annualized premiums for regular payment premium products sold during the applicable period plus 10% of its premiums for single payment premium products sold during such period.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016[8]		2017[8]	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In billions of Won, except percentages)									
General account[1]										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 292	27.7%	₩ 439	28.0%	₩ 421	40.4%	₩267	41.2%	₩109	39.0%
Other protection-type products[2]	128	12.2	121	7.7	141	13.5	77	11.9	75	26.8
Annuities[3]	114	10.8	113	7.2	54	5.2	36	5.5	25	9.1
Savings insurance	501	47.4	881	56.2	394	37.8	259	39.9	34	12.2
Group insurance	1	0.1	1	0.0	1	0.0	0	0.0	0	0.1
Subtotal	1,037	98.2	1,555	99.1	1,011	96.9	639	98.5	243	87.3
Separate accounts[4][5]										
Individual insurance:										
Variable protection-type products[6]	8	0.8	6	0.4	24	2.3	6	0.9	30	10.6
Variable annuities	10	0.9	6	0.4	9	0.8	4	0.5	6	2.1
Variable savings insurance[7]	1	0.1	1	0.1	0	0.0	0	0.0	0	0.0
Subtotal	19	1.8	14	0.9	33	3.1	10	1.5	35	12.7
Total	₩1,056	100.0%	₩1,568	100.0%	₩1,043	100.0%	₩649	100.0%	₩278	100.0%

(1) Includes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs, which is recognized as premium income in our statements of comprehensive income.
(2) Includes term life insurance, health insurance and children's insurance products.
(3) Includes education insurance products.
(4) Reflects the portion of premiums received on variable insurance policies that relates to benefits based on the performance of the underlying investment assets, which is not included in our statements of comprehensive income.
(5) Excludes retirement pensions.
(6) Includes variable whole life insurance and variable universal whole life insurance products.
(7) Includes variable life insurance and variable universal life insurance products.
(8) For the first six months of 2016 and 2017, APE is calculated based on the amount of premiums recognized in the specified interim period in respect of policies sold during that period.

The following table sets forth a breakdown of the Issuer's first year premiums by single or regular payment type products (including first year premiums for its separate accounts other than for retirement pension products), on a standalone basis, for the periods indicated.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2014	2015	2016	2016	2017
	(in billions of Won)				
First year regular premiums	₩ 86	₩126	₩ 84	₩ 52	₩23
First year single payment premiums	269	571	313	204	54
Total first year premiums	₩355	₩697	₩397	₩257	₩77

Individual Life Insurance

The Issuer provides a wide range of life insurance products for individuals that provide protection against a policyholder's death, disability, illness, accident or other events, as well as annuities, savings and variable insurance products. The Issuer seeks to optimize its product offering mix by increasing the sales proportion of protection-type life insurance products, which offer a stable source of revenues and enhance our risk-based capital adequacy ratio as they require lower premium reserves than savings or annuity products and are less exposed to interest rate risk. The Issuer also manages its risk exposure and profitability by periodically adjusting its policy features and premiums to reflect updated actuarial data and seeking to optimize the proportion of interest rate-sensitive insurance products in its product offering mix. On many of its products, the Issuer provides policyholders various options to tailor their policies to their needs by integrating specific features into their policies. From time to time, the Issuer also supplements its existing products by introducing additional riders and enhanced product features. In addition, the Issuer offers family policies insuring two or more family members under one policy, as well as policies developed particularly to address the insurance needs of specific demographic segments and the relevant life stages of policyholders, including age-specific products aimed at children and senior citizens.

Protection-type Products

Whole Life Insurance. Whole life insurance products are the Issuer's leading protection-type products. The Issuer's whole life insurance products provide a guaranteed benefit to the beneficiary upon the death of the insured person, or a cash surrender value upon the early termination of the policy by the policyholder, in each case as predetermined by the contract, in return for periodic payment of fixed premiums over a predetermined period. Premium payments may be required up to a specified age or for a specified period, and are typically level throughout the period.

The Issuer offers a wide range of whole life insurance products, including interest rate-sensitive whole life insurance policies that provide a death benefit determined in accordance with a floating interest crediting rate. In addition, the Issuer offers universal whole life insurance policies that provide flexible premium payment options and an adjustable benefit. Premium payments above the cost of insurance are credited to the cash value of the policy and the cash value is credited with interest each month based on the terms of the policy. The Issuer also provides whole life insurance products that cater to customers concerned with the treatment of critical illnesses or the need for long-term care by paying a portion of the guaranteed benefit upon the occurrence of certain specified critical illnesses or other specified events requiring long-term care affecting the insured person and paying the remainder of the guaranteed benefit upon the death of the insured person to a beneficiary designated by the policyholder. If the insured person dies without any such critical illnesses or events requiring long-term care, the entire guaranteed benefit is paid to the beneficiary upon the death of such person. Some of the Issuer's whole life insurance products also permit the policyholder to convert the policy into an annuity, in response to the increasing needs of customers to prepare financially for their retirement years.

The Issuer also offers variable whole life insurance and variable universal whole life insurance products. See "— Variable Insurance Products." The Issuer's variable whole life insurance products are designed for customers that are primarily seeking death benefits but with the potential for a higher return than traditional whole life insurance products. Variable universal whole life insurance products also provide policyholders with the flexibility to adjust premium payments.

Term Life Insurance. Term life insurance products provide a guaranteed benefit to the beneficiary upon the death of the insured person within a specified time period in return for periodic payment of fixed premiums. Specified coverage periods generally range from five to 20 years or expire at specified ages. Premiums are typically set as a fixed sum for the coverage period and are generally lower than premiums for whole life insurance products. In their basic form, term life insurance policies function as pure protection products, in that they normally have little or no savings or investment elements and typically expire without value at the end of the coverage period if the insured person is still alive. However, in line with general market demand in Korea, the Issuer also offers term life insurance policies that return to the policyholder at expiration the entire amount of the premiums paid by the policyholder throughout the coverage period.

Other Protection-type Insurance. The Issuer offers defined health benefit insurance products and medical expense reimbursement insurance products to individuals. The Issuer's defined health benefit insurance products include products specifically covering cancer, heart disease, strokes and long-term care, and provide guaranteed payments if an examination, surgical procedure or hospitalization becomes necessary for the insured person due to such covered diseases. The Issuer also offers comprehensive defined health benefit insurance products, which we believe are particularly attractive to customers who are comparatively price-sensitive and are seeking to protect against specific combinations of health events. The Issuer's medical expense reimbursement insurance products provide for the reimbursement of a portion of the insured person's outpatient or hospitalization treatment fees and expenses. The Issuer's underwriting, policy review and claim adjustment processes are facilitated through a team of supporting personnel with medical training. The Issuer offers both pure protection products with no value at the end of the coverage period as well as products that return to the policyholder at expiration a predetermined portion of the premiums paid by the policyholder throughout the coverage period.

The Issuer also offers accident insurance products, which provide death, disability and medical expense benefits in the event that the insured person is involved in an accident, in return for periodic payment of fixed premiums over a predetermined period. Typically, a death benefit is paid if the insured person dies as a result of an accident and a disability benefit is paid if the insured person becomes disabled, with the benefit depending on the extent of the disability. If the insured person receives medical treatment as a result of an accident, individual accident insurance policies may also provide for reimbursement of a portion of the medical treatment expenses or a fixed benefit. In addition, the Issuer offers various protection-type insurance products tailored for specific demographic segments, including age-specific products aimed at children. Children's insurance policies of the Issuer generally provide coverage against a child's illness or accident over a long-term coverage period from prior to birth until up to 100 years of age, in return for periodic payment of fixed premiums over a predetermined period. Children's insurance policies of the Issuer may also provide predetermined benefits upon expiration of the coverage period.

Annuities

The Issuer offers annuities that are used by its customers to accumulate assets over an accumulation period and then to receive annuity payments in later years. Holders of the Issuer's annuity products pay premiums either in a single payment or on a periodic basis over a predetermined period and receive periodic annuity payments during the payoff period specified in the contract. Typically, the policyholder receives periodic annuity payments if the insured person survives during the payoff period, and the beneficiary designated by the policyholder receives a death benefit if the insured person dies prior to the start of the payoff period. Annuities have become increasingly popular in Korea as both life expectancy and interest in preparing for life after retirement have grown. The Issuer also offers annuities with variable insurance features. See "— Variable Insurance Products."

Savings Insurance

The Issuer offers savings insurance products that provide the policyholder with a guaranteed maturity benefit if the insured person survives a specified maturity date or period stated in the policy, and provide to a beneficiary designated by the policyholder a guaranteed death benefit upon the death of the insured person within the coverage period, in return for periodic payment of premiums. Specified coverage periods typically range from three to ten years or end at specified ages. Premiums are typically set as a fixed sum and are usually required to be paid in a single payment or over a predetermined payment period. All of the savings insurance policies the Issuer currently offers are interest rate-sensitive products that provide benefits determined in accordance with a floating interest crediting rate, with a guaranteed minimum crediting rate currently set between 1.0% and 1.5% per annum, depending on the coverage period.

The Issuer also offers savings insurance products with variable insurance features, such as variable life insurance products and variable universal life insurance products. See "— Variable Insurance Products."

Variable Insurance Products

The Issuer's variable insurance products consist of variable protection-type products (which include variable whole life insurance and variable universal whole life insurance), variable annuities and variable savings insurance products (which include variable life insurance and variable universal life insurance).

Variable insurance policies generally provide a return linked to an underlying investment portfolio designed by the policyholder while also providing a guaranteed minimum protection benefit and/or a guaranteed minimum accumulation benefit, predetermined by the contract, in return for periodic payment of fixed premiums over a predetermined period. The Issuer establishes policy reserves in its general account in respect of such guaranteed minimum protection, annuity or savings benefits in accordance with applicable regulations and its risk management policies and recognizes the portion of the premiums received on the Issuer's variable insurance policies that relates to such benefits as separate account commission received in its general account. In addition, the Issuer recognizes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs as premium income in its general account. Other than such portions relating to guaranteed minimum protection, annuity or savings benefits and acquisition and operating costs that are allocated to the Issuer's general account, the Issuer pools premiums paid by its variable insurance policyholders and purchases interests in investment funds among which its policyholders are able to allocate and adjust their investment portfolio. The Issuer distributes the returns from such investment portfolio to the beneficiaries upon the death of the insured person or to the policyholder upon the maturity of the contract or the predetermined accumulation date. Accordingly, the aggregate returns payable under variable insurance policies are not predetermined and vary depending on the investment performance of the relevant portfolios selected by the policyholders. We believe that variable insurance products are comparatively more attractive to customers than interest rate-sensitive life insurance products in a low interest rate environment.

Variable insurance products can also be utilized as tax-exempt vehicles for overseas investment, which the Issuer believes is an attractive feature for Korean customers. We believe that variable insurance policies are particularly popular as retirement planning instruments due to the breadth of portfolio investment options the Issuer makes available with respect to such policies and the tax benefits associated with such options. The Issuer seeks to increase the sales proportion of variable insurance products within its product mix, as such products provide a stable source of commission income in the form of management fees and enhance our risk-based capital adequacy ratio as they are subject to substantially lower premium reserve requirements and interest rate risk exposure than general account life insurance products. See "— Our Strategy."

The Issuer is required under the Regulation on Supervision of Insurance Business to maintain separate accounts related to variable insurance policies (as well as retirement pension products). These separate accounts are segregated from each other and from the Issuer's general account. Investment and other assets supporting the obligations under these separate account products, net of amounts receivable from the general account, are recorded as "separate account assets" in our statements of financial position, while insurance contract liabilities, investment contract liabilities and other liabilities with respect to such products, net of amounts payable to the general account, are recorded as "separate account liabilities" in our statements of financial position. The Issuer engages several investment management companies to manage the investment portfolios of the Issuer's separate accounts. Such investment management companies have the discretion to make their own independent investment decisions. The Issuer selects such investment management companies competitively on the basis of past investment returns, management costs and other qualitative assessments.

Retirement Pension Products

The Issuer offers retirement pension plans to Korean companies and institutions pursuant to the Korean Employee Retirement Benefit Security Act, as well as plan administrator services and asset management services. The Issuer offers the following two types of retirement pension plans, which are selected by the participating companies:

- ***Defined benefit plan.*** Under a "defined benefit" plan, an employer makes contributions into an employee's plan prior to retirement, and the employee receives either a lump-sum retirement benefit or, if an annuity option is selected, a fixed level of payments during the payoff period, with the employer being responsible for any shortfall in the event that the plan's investment returns are not sufficient for the lump-sum benefit or fixed-level payments.
- ***Defined contribution plan.*** Under a "defined contribution" plan, an employer makes contributions into an employee's plan prior to retirement, and the employee receives either a lump-sum retirement benefit or, if an annuity option is selected, a fixed level of payments during the payoff period, based on the plan's investment returns linked to the underlying investment portfolio selected by the employee.

The Issuer also offers individual retirement plan insurance products, which enable individuals to transfer their lump-sum severance payment or accrued pension amount received upon leaving an employer into their individual retirement accounts, with the effect of deferring tax liabilities on severance benefits until the individual's retirement. The amounts paid in are used to purchase investment funds selected by the policyholders, and the returns are paid to the specified beneficiary upon retirement.

Group Life Insurance

The Issuer provides group life insurance products to institutional customers, primarily focusing on protection-type group life insurance plans. The Issuer's group life insurance products primarily consist of group disability insurance and group health insurance plans, including medical expense reimbursement plans and disease-specific plans, which form a part of a company's employee benefit program.

Trust Services

The Issuer provides fee-based trust management services, which consist of specified money trusts and property trusts. Specified money trusts invest cash received as trust property at the direction of the trustors and, once the trust matures, disburse the principal and any gains to the trust beneficiaries. Property trusts refer to the Issuer's management of customers' non-cash assets (including receivables, real estate, and securities). The Issuer promotes its trust services primarily through its headquarters and "Financial Plaza" network.

Distribution and Marketing Channels of the Issuer

The Issuer operates a multi-channel distribution and marketing platform in Korea, which enables it to efficiently and effectively offer tailored products and services to prospective customers and provides it with the flexibility to adapt to changes in the Korean life insurance market. The Issuer markets and distributes its products mainly through the following channels:

- ***Bancassurance Channel*** — The Issuer has bancassurance arrangements with the leading commercial banks, securities firms and mutual savings banks in Korea, pursuant to which they market and distribute the Issuer's life insurance products through their branches on a non-exclusive basis. The bancassurance channel has been the Issuer's most important distribution channel in recent years;

- ***Agency Channel —*** The Issuer has entered into marketing arrangements with 209 general agencies and 22 individual agencies that sell its products on a non-exclusive basis;

- ***Tied Agent Channel*** — The Issuer engaged 2,335 full-time professional tied agents as of June 30, 2017, who sell the Issuer's life insurance products on an exclusive basis (including approximately 27 tied agents of property and casualty insurance companies who have elected to sell the Issuer's products among those offered by life insurance companies but excluding approximately 625 tied agents who support the Issuer's direct marketing channel); and

- ***Direct Marketing Channel*** — The Issuer's direct marketing channel, which is supported by approximately 625 dedicated tied agents in addition to its employees, distributes the Issuer's life insurance products through telemarketing and marketing on home shopping television networks, as well as through the Internet.

In addition to its multi-channel distribution and marketing platform for life insurance products, the Issuer has dedicated corporate sales forces of approximately ten employees who market retirement pension plans to institutional customers.

The following table sets forth the amounts of the Issuer's first year premiums and percentages of the Issuer's total first year premiums (including first year premiums for its separate accounts other than for retirement pension products) attributable to each distribution channel, on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount[(1)]	%	Amount[(1)]	%
	(in billions of Won, except percentages)									
Bancassurance	₩221	62.4%	₩489	70.1%	₩170	42.7%	₩104	40.6%	₩28	36.5%
Agencies	86	24.2	142	20.4	158	39.8	107	41.6	28	36.7
Tied agents[(2)]	34	9.7	47	6.7	44	11.0	30	11.5	11	14.4
Direct marketing[(3)]	13	3.7	19	2.8	26	6.5	16	6.3	10	12.4
Total	₩355	100.0%	₩697	100.0%	₩397	100.0%	₩257	100.0%	₩77	100.0%

(1) For the first half of 2016 and 2017, first year premiums comprise the amount of premiums recognized in the specified interim period in respect of policies sold during that period.
(2) Excludes first year premiums attributable to tied agents who support the Issuer's direct marketing channel.
(3) Includes first year premiums attributable to tied agents who support the Issuer's direct marketing channel.

The following table sets forth the amounts and percentages of the Issuer's APE (including APE for separate accounts other than for retirement pension products) attributable to each distribution channel, on a standalone basis, for the periods indicated. APE for the periods indicated represents the Issuer's annualized premiums for regular payment premium products sold during the applicable period plus 10% of its premiums for single payment premium products sold during such period.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount[(1)]	%	Amount[(1)]	%
	(in billions of Won, except percentages)									
Bancassurance	₩ 529	50.1%	₩ 916	58.4%	₩ 421	40.3%	₩271	41.7%	₩ 50	18.0%
Agencies	231	21.9	333	21.2	333	31.9	213	32.8	101	36.4
Tied agents[(2)]	176	16.6	180	11.5	171	16.4	94	14.5	69	24.9
Direct marketing[(3)]	120	11.3	140	8.9	118	11.3	71	10.9	57	20.7
Total	₩1,056	100.0%	₩1,568	100.0%	₩1,043	100.0%	₩649	100.0%	₩278	100.0%

(1) For the first half of 2016 and 2017, APE is calculated based on the amount of premiums recognized in the specified interim period in respect of policies sold during that period.
(2) Excludes APE attributable to tied agents who support the Issuer's direct marketing channel.
(3) Includes APE attributable to tied agents who support the Issuer's direct marketing channel.

Bancassurance Channel

The Issuer became the first life insurance company in Korea to sell its products through the bancassurance channel in 2003, and the Issuer maintains bancassurance agreements with the leading commercial banks, securities firms and mutual savings banks in Korea, pursuant to which such financial institutions market and distribute the Issuer's life insurance products through their branches in return for commission fees. The Issuer's bancassurance agreements with banks typically have terms of three years and are renewed automatically at the expiration of such term in the absence of a prior notice not to renew. Traditionally, the Issuer has sold savings insurance products and annuities through its bancassurance channel. Starting in 2017, the Issuer began offering variable insurance products through the bancassurance channel and plans to expand its variable insurance product offerings for such channel in the future. The Issuer also caters to high net-worth individuals through its partner banks' private banking centers, through which the Issuer believes it can upsell its products and efficiently generate higher margins.

The Issuer has a dedicated bancassurance sales team that regularly coordinates with its bancassurance partners to implement its distribution efforts. The Issuer provides customized training and sales support to its partner institutions in order for their tellers to be knowledgeable about and effectively sell the Issuer's products.

The following table sets forth certain information relating to the Issuer's bancassurance channel as of the dates or for the periods indicated.

	As of, or for the Year Ended, December 31,			As of, or for the Six Months Ended, June 30,	
	2014	2015	2016	2016	2017
Number of partner banks	16	16	15	16	15
Number of partner securities companies	10	11	10	11	10
Number of partner savings banks and cooperatives	4	7	8	8	10
Number of partner credit card companies	3	—	—	1	—
Number of active partner branches[(1)]	2,429	2,836	1,694	2,135	644
Annualized premium equivalent per active branch (in thousands of Won)[(2)]	₩91,087	₩172,314	₩100,237	₩97,681	₩87,175

(1) The monthly average number of branches that have sold one or more policies per month.
(2) Calculated by dividing (i) the aggregate amount of first year premiums recognized, on an annualized basis, for policies sold through the Issuer's bancassurance channel in a specified period by (ii) the monthly average number of active partner branches for such period.

Agency Channel

Insurance agencies are independent insurance brokerage companies that market and distribute a wide range of insurance products in return for commission fees. As of June 30, 2017, the Issuer had marketing arrangements with 209 general agencies and 22 individual agencies that sell its products on a non-exclusive basis. In recent years, the agency channel has developed into an important distribution channel for the Issuer's insurance products, surpassing the tied agent channel in 2015 in terms of total premium income attributable to each distribution channel. The products that the Issuer sells through its agency channel are primarily protection-type insurance products and annuities.

The following table sets forth certain information relating to the Issuer's agency channel as of the dates or for the periods indicated.

	As of, or for the Year Ended, December 31,			As of, or for the Six Months Ended, June 30,	
	2014	2015	2016	2016	2017
Number of general agencies	201	205	212	218	209
Number of individual agencies	23	22	22	22	22
Number of active agency employees[1]	2,381	3,467	3,294	3,939	2,109
Activity ratio[2]	5.5%	6.0%	4.7%	5.8%	2.7%

(1) The monthly average number of agency employees who have sold one or more policies per month.
(2) The ratio of (i) the monthly average number of active agency employees to (ii) the monthly average number of all employees of agencies with which the Issuer has marketing arrangements.

The Issuer's arrangements with agencies typically have terms of one year and are renewed automatically at the expiration of such term in the absence of a prior notice not to renew.

Tied Agent Channel

Traditionally, a significant portion of life insurance sales in Korea have been driven by personal relationships of individual tied agents, and the Issuer's tied agent channel continues to constitute an important distribution channel for its products. The Issuer believes that its extensive network of tied agents who sell its products on an exclusive basis enables it to more effectively control distribution of its products and build and maintain long-term relationships with its individual customers. The Issuer's tied agents are trained to match customers of varying income levels and demographic segments with specific life insurance and investment products that fit their particular needs, and to customize these products with individualized features.

The following table sets forth certain information relating to the Issuer's tied agent channel as of the dates or for the periods indicated.

	As of, or for the Year Ended, December 31,			As of, or for the Six Months Ended, June 30,	
	2014	2015	2016	2016	2017
Number of tied agents[1]	4,254	4,393	3,078	3,465	2,335
13th-month retention rate[2]	23.7%	37.3%	32.4%	36.1%	28.3%
Tied agent productivity (in thousands of Won)[3]	₩7,341	₩10,825	₩11,712	₩15,063	₩8,171

(1) Includes tied agents of property and casualty insurance companies who have elected to exclusively sell the Issuer's products from among those offered by life insurance companies but excluding tied agents who support the Issuer's direct marketing channel.
(2) The percentage of tied agents remaining with the Issuer after 12 months of engagement.
(3) The ratio of (i) the aggregate amount of first year premiums recognized, on an annualized basis, for policies sold through the Issuer's tied agent channel in a specified period to (ii) the average number of the Issuer's tied agents for such period.

In recent years, the Issuer has taken measures to streamline and optimize its tied agent channel by terminating relationships with unproductive tied agents and closing a number of branch offices, as well as strengthening its training programs and adjusting the compensation structures for tied agents in order to incentivize stronger performance as well as promote recruitment and retention of high-caliber tied agents. We believe that such measures will result in an improved cost structure and enhanced productivity of the Issuer's tied agent channel.

The Issuer's tied agents enter into standardized agency agreements with the Issuer, which typically are for renewable one-year terms and may be terminated by the tied agent at any time and by the Issuer upon the occurrence of various events specified in the agreement, including the tied agent's failure to meet the Issuer's minimum performance standards. A significant portion of the Issuer's tied agents' compensation consists of commissions for the products they sell and bonuses for outstanding performance, in addition to certain training allowances and initial payments paid at the beginning of their agency relationship with the Issuer. Many of the Issuer's tied agents also sell non-insurance financial products, including the Issuer's loan products, in order to enhance their commission income.

In conjunction with its tied agent channel, the Issuer also operates the following:

- ***Branch Offices*** — As of June 30, 2017, the Issuer maintained a network of 71 branch offices in Korea, at which the operations of the Issuer's tied agent channel are supported by branch managers and support staff.
- ***Financial Plazas*** — In addition to its branch offices, the Issuer operates a nationwide network of "Financial Plazas" through which the Issuer offers and markets a variety of financial products and services, including life insurance products and trust services, as well as financial advisory services. As of June 30, 2017, the Issuer had ten Financial Plazas located throughout Korea, of which two were located in the Seoul metropolitan area.

Direct Marketing Channel

The Issuer conducts direct marketing efforts through telemarketing as well as marketing on home shopping television networks and the Internet. As of June 30, 2017, the Issuer had 625 telemarketing consultants stationed at certain of its branches. Telemarketing consultants utilize the Issuer's database to solicit applications for new policies over the telephone as well as seeking to generate new business by conducting follow-up communications and in-person visits with existing policyholders. The Issuer plans to continue to seek a balanced expansion of solicitation, customer relationship management and cross-selling activities by its telemarketing consultants, while optimizing its customer centers and direct marketing personnel to improve its operating efficiency. The Issuer has also entered into marketing arrangements with Korea's leading home shopping television networks to market its insurance products to television viewers.

In response to the proliferation of electronic communication channels and increased usage of the Internet and mobile devices as a means of commercial activity, the Issuer has also invested in the development of an online platform to reach existing and prospective customers through its website at www.heungkuklife.co.kr as well as its mobile application. Some of the Issuer's products are sold exclusively through its online platform. The

Issuer believes that the importance of mobile applications and the Internet as a marketing and distribution channel will continue to grow in the future, and the Issuer plans to continue to invest in enhancing its online platform and mobile application to meaningfully supplement its more traditional channels.

Corporate Sales

In addition to the above channels that the Issuer utilizes to market and distribute individual life insurance products, it operates a corporate sales channel for marketing and distributing retirement pension plans to corporate and institutional customers. The Issuer has a dedicated corporate sales force consisting of approximately ten employees operating from its headquarters who focus on marketing retirement pension plans to institutional customers.

General Account Investments of the Issuer

The Issuer maintains a diversified investment portfolio to generate investment returns to support its insurance liabilities and to enhance shareholder values. As of June 30, 2017, the Issuer had Won 22,409 billion of general account investment assets on a standalone basis, of which domestic debt securities and loans accounted for 61.4%. The Issuer invests insurance premiums received from its policyholders in domestic debt securities (including special bonds, Government and Government-related bonds, corporate bonds and financial bonds), loans (including unsecured loans, loans secured by real estate and other assets, policy loans and project financings), overseas securities (including foreign-currency denominated bonds, hybrid capital securities and beneficiary certificates), beneficiary certificates, real property investments, domestic equity securities and other securities (including structured securities and hybrid capital securities). The Issuer's general account does not include assets of its separate accounts for which the customer assumes risks of ownership. The Issuer places its assets relating to its variable insurance products and retirement pension products in separate accounts pursuant to the Regulation on Supervision of Insurance Business.

The following table summarizes information regarding the Issuer's general account investment assets, on a standalone basis, as of the dates indicated.

	As of December 31,						As of June 30,	
	2014		2015		2016		2017	
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Domestic debt securities	₩ 5,511	33.9%	₩ 6,910	35.6%	₩ 8,208	37.5%	₩ 8,165	36.4%
Loans receivable [(1)]	5,098	31.4	5,687	29.3	5,699	26.1	5,599	25.0
Overseas securities	968	6.0	2,011	10.3	3,361	15.4	3,873	17.3
Beneficiary certificates	1,305	8.0	1,780	9.2	2,317	10.6	2,858	12.8
Real property investments[(2)]	749	4.6	754	3.9	756	3.5	796	3.5
Cash and due from banks	1,066	6.6	1,086	5.6	582	2.7	316	1.4
Domestic equity securities	418	2.6	425	2.2	320	1.5	304	1.4
Other securities[(3)]	1,116	6.9	754	4.0	620	2.8	498	2.2
Total	₩16,233	100.0%	₩19,438	100.0%	₩21,862	100.0%	₩22,409	100.0%

(1) Net of present value discount, allowance for loan losses and deferred loan origination costs and fees.
(2) Include land and buildings held as investment assets and real property used in the Issuer's operations.
(3) Include trading derivatives.

Management of Investments

The Issuer's investment philosophy is to seek stable and efficient long-term growth in the value of its general account assets and to enhance the sources of its cash flows pursuant to its asset and liability management policies. The Issuer strives to maintain a diversified and sound investment portfolio that is managed in accordance with its risk management policies. Accordingly, the Issuer designs asset mix strategies for its general account to match the characteristics of its insurance products and other obligations, which also reflects the Issuer's desire to generate stable long-term returns while sustaining adequate liquidity and solvency levels. The Issuer seeks to achieve its investment objectives through asset and liability management and longer-term strategic and shorter-term tactical asset allocations within a disciplined risk management framework. The Issuer's asset allocation also reflects its desire for broad diversification across asset classes, sectors and issuers as well as asset managers and brokerages. In recent years, the Issuer has started to pursue a strategic asset allocation plan with an increased emphasis on Government and Government-related bonds with longer maturities and alternative and overseas assets with relatively higher potential returns compared to previous years. The Issuer believes that the size and diversity of its investment portfolio and its flexible investment strategy enable it to seek out and benefit from attractive investment opportunities.

The Issuer's Risk Management Committee approves the investment policy for the general account, which includes investment guidelines, a target asset mix, risk tolerances and performance benchmarks, with support from its Asset Biz Committee, which is composed of three subcommittees consisting of the Investment Screening Committee, Credit Committee and Asset Management Committee. It also reviews performance and risk positions on a quarterly basis. The Issuer's Investment Screening Committee, which is chaired by the head of its Asset Management Team and also comprises the heads of certain other relevant operational departments, is responsible for making investment decisions (other than for loans), while the Issuer's Credit Committee, which is also chaired by the head of its Asset Management Team and comprises the heads of certain other relevant operational departments, is responsible for decisions on approving loans, in each case in accordance with the Risk Management Committee's policies and guidelines. See "Risk Management."

On a standalone basis, the average yield on the Issuer's investment portfolio, net of management and administrative expenses, was 4.3%, 3.9% and 3.4% in 2014, 2015 and 2016, respectively, and 3.6% and 3.7% in the first half of 2016 and 2017, respectively.

Domestic Debt Securities

The Issuer's holdings of domestic debt securities constitute its largest investment category. The Issuer's domestic debt securities consist primarily of special bonds, Government and Government-related bonds, corporate bonds and financial bonds. Special bonds are bonds issued by companies established pursuant to special Korean laws and regulations (including Government-controlled utility companies and banks established under special Korean laws and regulations). Government and Government-related bonds are sovereign debt of Korea. The Issuer also selectively invests in corporate bonds of Korean companies whose securities are rated as investment grade, as well as bonds issued by Korean financial institutions. As of June 30, 2017, substantially all of the Issuer's domestic bond portfolio comprised bonds with a credit rating of A and above as rated by Korean rating agencies.

The following table sets forth the carrying values of the Issuer's domestic debt securities, on a standalone basis, as of the dates indicated.

	As of December 31,						As of June 30,	
	2014		2015		2016		2017	
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Special bonds	₩1,458	26.4%	₩2,014	29.1%	₩2,481	30.2%	₩3,001	36.8%
Government and public bonds	552	10.0	1,144	16.6	2,114	25.8	2,608	31.9
Corporate bonds	2,397	43.5	2,725	39.4	2,719	33.1	2,028	24.8
Financial bonds	1,103	20.0	1,028	14.9	893	10.9	527	6.5
Total domestic debt securities	₩5,511	100.0%	₩6,910	100.0%	₩8,208	100.0%	₩8,165	100.0%

The following table shows the contractual maturities of the Issuer's domestic debt securities, on a standalone basis, as of the dates indicated.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(In billions of Won)			
Due within one year	₩ 677	₩ 602	₩ 554	₩ 333
Due within five years	1,540	1,200	1,018	1,128
Due within ten years	1,457	1,584	1,681	1,441
Due after ten years	1,837	3,523	4,955	5,263
Total	₩5,511	₩6,910	₩8,208	₩8,165

The Issuer maintains monitoring processes for its domestic debt securities and formally reviews its holdings of debt securities on a periodic basis to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances or industry or issuer specific concerns. The Issuer manages its potential losses in the event of substantial credit deterioration of its domestic debt securities by setting credit exposure limits for corporations and large business groups based on external credit ratings and its internal credit scoring.

In managing its investments in domestic debt securities, the Issuer is strategically focused on continuing to adjust the mix of its risk-weighted assets in accordance with the evolving risk-based capital adequacy requirements of the FSS, including by increasing the relative proportion of its investments in long-term Government or Government-related bonds and bonds with high credit ratings.

Loans

The Issuer offers various loan products to qualified retail and institutional borrowers, including unsecured credit loans, loans secured by real estate and policy loans to its existing policy holders.

The following table sets forth a breakdown of the Issuer's loan portfolio, on a standalone basis, as of the dates indicated.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(In billions of Won)			
Unsecured loans	₩1,364	₩1,825	₩2,083	₩2,095
Loans secured by real estate	1,509	1,554	1,460	1,416
Policy loans	1,160	1,158	1,180	1,222
Loans secured by securities	35	35	34	19
Loans secured by third party guarantees	21	32	36	15
Other loans[1]	1,016	1,097	924	850
Total loans	₩5,105	₩5,700	₩5,716	₩5,617
Present value discount	(0)	(0)	(0)	(0)
Allowance for doubtful accounts	(26)	(25)	(20)	(21)
Deferred loan origination cost	8	5	3	3
Total loans, net of present value discount, allowance for doubtful accounts and deferred loan origination cost	₩5,098	₩5,687	₩5,699	₩5,599

(1) Include financings of social overhead capital projects and other project financings.

The Issuer offers unsecured loans of up to Won 30 million to individuals. The maturity of unsecured loans to individuals is generally one to three years, and can be extended at the stated maturity date. The Issuer's loans secured by real estate are provided to borrowers purchasing properties, with the maximum borrowing amount generally limited to 60% of the value of the collateral. The maturity of loans secured by real estate ranges from ten to 30 years. Policy loans are interest-bearing loans to the Issuer's policyholders, who may borrow from the Issuer up to approximately 50% to 97% of the cash surrender values of their insurance policies depending on the type of policy. Policy loans are secured by the cash surrender value of the policies.

The Issuer's policyholders are pre-approved for policy loans of up to a predetermined percentage of the cash surrender value of their policies. For retail loans other than policy loans, the Issuer uses an internally developed credit review system to review the creditworthiness of borrowers applying for loans and the accuracy of the information provided by such applicant. The Issuer's credit review system takes into account information provided by the borrower on their applications, together with transaction history and credit information obtained from internal and external databases. The amount of the retail loan available to a borrower so approved and the interest rate applicable to such loan are based, among other things, on the internally generated credit score of the borrower and the value and liquidity of the collateral, if any.

The Issuer continuously monitors an individual borrower's condition with respect to his or her current debt, collateral and debt service capability. Based on its review, the Issuer may adjust the borrower's credit limits, applied interest rates and the credit policies relating to that borrower. The Issuer also uses an electronic collateral evaluation and monitoring system to continuously review the liquidation value of collateral it holds.

The Issuer also provides a variety of loans to institutions, focusing principally on financing of social overhead capital projects, other project financings and loans to real estate investment trusts that are either guaranteed by the Government or municipalities or secured by a security interest in the project or real estate. The maturity of such loans to institutions generally ranges from three to 20 years.

The following table shows a breakdown of the Issuer's loan portfolio by contractual maturity dates, on a standalone basis, as of the dates indicated. The loan amounts stated in the table below are before deduction of present value discount and allowance for doubtful accounts and addition of deferred loan origination cost.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(In billions of Won)			
Due in one year or less	₩ 358	₩ 310	₩ 351	₩ 338
Due after one year and through two years	644	765	683	624
Due after two years and through three years	151	276	247	227
Due after three years	3,953	4,349	4,436	4,427
Total loans	₩5,105	₩5,700	₩5,716	₩5,617

The following table provides a breakdown of the Issuer's loan portfolio, as of the dates indicated, applying the asset quality categories as determined under the Regulation on Insurance Business Supervision. The loan amounts stated in the table below are before deduction of present value discount and allowance for doubtful accounts and addition of deferred loan origination cost.

	As of December 31,			As of June 30,
	2014	2015	2016	2017
	(In billions of Won)			
Normal	₩5,042	₩5,642	₩5,584	₩5,488
Precautionary	55	49	125	121
Substandard	6	3	1	1
Doubtful	2	3	3	4
Estimated loss	1	3	3	2
Total loans	₩5,105	₩5,700	₩5,716	₩5,617

Overseas Securities

The Issuer's holdings of overseas securities consist principally of foreign currency-denominated bonds issued by the Government and Government agencies and foreign issuers including governments and corporations and, to a lesser extent, foreign currency-denominated hybrid capital securities and beneficiary certificates. Although long-term fixed income securities have become more accessible in Korea, the availability of such securities in the Korean financial markets was historically limited, and the Issuer increased its investments in overseas securities in recent years primarily to enhance its ability to match the duration of its interest-earning assets and interest-bearing liabilities. The Issuer's overseas securities are primarily denominated in U.S. dollars. The Issuer seeks to hedge its foreign currency exposure under its overseas securities at the time of investment through currency swap contracts or other derivative instruments.

The following table sets forth the carrying value of the Issuer's overseas securities, on a standalone basis, as of the dates indicated.

	As of December 31,						As of June 30,	
	2014		2015		2016		2017	
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Debt securities	₩805	83.1%	₩1,384	68.8%	₩2,537	75.5%	₩3,082	79.6%
Other securities[(1)]	163	16.9	627	31.2	824	24.5	791	20.4
Total overseas securities	₩968	100.0%	₩2,011	100.0%	₩3,361	100.0%	₩3,873	100.0%

(1) Include foreign currency-denominated hybrid capital securities and beneficiary certificates.

In recent years, the Issuer has been selectively increasing its investments in longer-duration treasury and investment grade corporate bonds in the United States and other overseas markets, which it believes to have superior credit, duration and yield characteristics compared to domestic bonds, as part of its efforts to strengthen its asset and liability management, diversify its sources of income and enhance the returns of its investment portfolio.

Beneficiary Certificates

The Issuer's holdings of domestic beneficiary certificates, evidencing ownership in investment trusts managed by investment management companies in Korea, relate primarily to its equity investments in alternative assets, including investment vehicles for social overhead capital projects.

The following table sets forth the carrying values of the Issuer's beneficiary certificates, on a standalone basis, as of the dates indicated.

	As of December 31,						As of June 30,	
	2014		2015		2016		2017	
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Equity securities type beneficiary certificates	₩1,148	88.0%	₩1,641	92.2%	₩2,189	94.5%	₩2,714	94.9%
Beneficiary certificates in consolidated subsidiaries	157	12.0	139	7.8	128	5.5	145	5.1
Total beneficiary certificates	₩1,305	100.0%	₩1,780	100.0%	₩2,317	100.0%	₩2,858	100.0%

Real Property Investments

The Issuer's real property investments consist principally of real property held as investment assets, including land and buildings, as well as real property used in its operations.

The following table sets forth the carrying values of the Issuer's real property investments, on a standalone basis, as of the dates indicated.

	As of December 31,						As of June 30, 2017	
	2014		2015		2016			
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Land	₩526	66.0%	₩525	69.7%	₩525	69.5%	₩559	70.3%
Buildings	223	32.8	226	29.9	219	29.0	235	29.6
Construction in progress	—	—	3	0.3	11	1.4	1	0.2
Total real property investments	₩749	100.0%	₩754	100.0%	₩756	100.0%	₩796	100.0%

Property and Casualty Insurance Business

Products and Services of Heungkuk Fire & Marine

Heungkuk Fire & Marine offers a variety of property and casualty insurance products, including long-term insurance products with a coverage period of at least three years that have features similar to protection-type products of the Issuer and provide protection against a policyholder's illness, injuries, property losses or other events. Heungkuk Fire & Marine also offers automobile insurance and general property and casualty insurance products to both institutions and individuals.

The following table sets forth information about Heungkuk Fire & Marine's gross direct written premiums by product type, on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Long-term insurance	₩2,592	85.6%	₩2,870	86.1%	₩2,911	87.0%	₩1,456	86.3%	₩1,425	88.6%
Automobile insurance(1)	265	8.8	290	8.7	255	7.6	133	7.9	91	5.7
General property and casualty(1)(2)	141	4.7	142	4.3	148	4.4	84	5.0	78	4.8
Personal Annuities(3)	31	1.0	31	0.9	30	0.9	15	0.9	15	0.9
Total	₩3,028	100.0%	₩3,333	100.0%	₩3,345	100.0%	₩1,688	100.0%	₩1,609	100.0%

(1) Prior to deduction of refunds for prematurely terminated policies.
(2) Excludes income from reinsurance.
(3) Since 2006, Heungkuk Fire & Marine no longer offers new personal annuity products, and premiums recognized for periods subsequent to such time relate to policies that were sold prior to such time.

Long-term Insurance

Long-term insurance, which accounts for a substantial majority of the gross premiums of Heungkuk Fire & Marine, refers to insurance policies sold to retail customers that provide protection against various types of losses, with specified coverage periods of at least three years and ranging up to 30 years or ending at specified ages. Unlike general property and casualty insurance products, which usually have a coverage period of one year or less and only have pure protection features, substantially all long-term insurance policies in Korea also have an integrated savings feature. Premiums for long-term insurance products, which are typically set as a fixed sum and are usually required to be paid over the coverage period or another predetermined payment period, include a predetermined savings portion. Upon the expiration of the coverage period, the accumulated savings portion is returned to the policyholder together with interest. All of Heungkuk Fire & Marine's currently offered long-term insurance products are subject to a floating interest crediting rate, with a guaranteed minimum crediting rate currently set between 0.3% and 1.5% per annum. The relative portion of the savings component in a long-term insurance policy typically varies by product type as well as the policyholder's age and gender.

Heungkuk Fire & Marine offers a broad range of long-term insurance products covering the policyholder's injuries, illnesses, long-term care, disabilities, accidents, property losses or other events, including:

- fire and property insurance products;
- defined health benefit insurance products;
- medical expense reimbursement insurance products;
- long-term care insurance products;
- accident insurance products; and
- other insurance products that combine features of the above products.

Customers can also choose from various options which enable them to tailor their policies to meet their particular needs by integrating specific features and enhancing the coverage level provided by their policies. Heungkuk Fire & Marine also offers family policies insuring two or more family members under one policy, as well as policies developed particularly to address the insurance needs of specific demographic segments and the relevant life stages of policyholders, including age-specific products aimed at children and senior citizens.

Automobile Insurance

Heungkuk Fire & Marine offers automobile insurance products to retail and institutional customers in Korea.

Its automobile insurance products generally provide coverage up to specified maximum amounts for the following types of losses resulting from the policyholder's ownership or use of an insured automobile:

- liability to third parties for bodily injuries or death as well as damage to automobiles or other personal property, including for amounts exceeding the minimum compulsory coverage required under Korean law; and
- the policyholder's own bodily injuries and automobile damage or theft, including injuries or death of the policyholder due to an accident involving an uninsured vehicle.

Additional protection features are available for integration into an automobile insurance policy based on the customer's needs and preferences. Heungkuk Fire & Marine's automobile insurance policies typically have a coverage period of one year or less.

Like other property and casualty insurance companies in Korea, Heungkuk Fire & Marine sells an online automobile insurance product through its website, which offers discounted premiums compared to products with similar levels of coverage sold through more traditional channels.

General Property and Casualty Insurance

Heungkuk Fire & Marine's general property and casualty insurance products, which are sold to corporate and institutional customers, include the following:

- fire and allied lines insurance policies, providing protective coverage for damage to buildings and facilities and their contents against fire, flood, storm, lightening, explosion, theft and other risks;
- marine insurance policies, providing protective coverage for damage to marine vessels and their cargo; and
- specialty insurance policies, which cover various other types of specified risks faced by businesses, including liabilities and business interruption.

Distribution and Marketing Channels of Heungkuk Fire & Marine

Heungkuk Fire & Marine operates a multi-channel distribution and marketing platform in Korea. The following table sets forth the amounts of Heungkuk Fire & Marine's gross direct written premiums and percentages thereof attributable to each distribution channel, on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Six Months Ended June 30,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Agencies	₩1,151	38.0%	₩1,294	38.8%	₩1,340	40.0%	₩ 781	46.3%	₩ 683	42.4%
Tied agents	824	27.2	842	25.3	848	25.3	421	24.9	490	30.4
Bancassurance	333	11.0	497	14.9	449	13.4	211	12.5	173	10.7
Direct marketing	598	19.7	516	15.5	495	14.8	158	9.3	200	12.4
Corporate sales	122	4.0	184	5.5	214	6.4	117	6.9	64	4.0
Total	₩3,028	100.0%	₩3,333	100.0%	₩3,445	100.0%	₩1,688	100.0%	₩1,609	100.0%

Agency Channel

Insurance agencies, which are independent insurance brokerage companies that market and distribute a wide range of insurance products in return for commission fees, are the most important distribution channel of Heungkuk Fire & Marine. As of June 30, 2017, Heungkuk Fire & Marine had marketing arrangements with 264 general agencies and 729 individual agencies. The products that Heungkuk Fire & Marine sells through the agency channel are primarily long-term insurance and automobile insurance products.

Tied Agent Channel

Heungkuk Fire & Marine operates a nationwide network of tied agents. As of June 30, 2017, Heungkuk Fire & Marine engaged 3,882 tied agents who exclusively market its products (including approximately 1,010 tied agents of life insurance companies who have elected to sell Heungkuk Fire & Marine's products among those offered by property and casualty insurance companies) with support from 109 branch offices in Korea. Heungkuk Fire & Marine's tied agents are trained to match customers of varying income levels and demographic segments with long-term and automobile insurance products that fit their particular needs, and to customize these products with individualized features.

Bancassurance Channel

Heungkuk Fire & Marine has bancassurance arrangements with leading commercial banks and credit card companies in Korea, pursuant to which such financial institutions market and distribute Heungkuk Fire & Marine's insurance products through their branches in return for commission fees. The products that Heungkuk Fire & Marine sells through the bancassurance channel are primarily long-term insurance products.

Direct Marketing and Corporate Sales Channels

Heungkuk Fire & Marine conducts direct marketing efforts through telemarketing as well as marketing on home shopping television networks, primarily to sell its automobile insurance policies. Heungkuk Fire & Marine also offers and markets certain insurance products, particularly its automobile insurance products, through its website at heungkukfire.co.kr as well as its mobile application. In addition, Heungkuk Fire & Marine has a dedicated employee sales force that markets its general property and casualty insurance products to institutional customers.

General Account Investments of Heungkuk Fire & Marine

As of June 30, 2017, Heungkuk Fire & Marine had Won 9,502 billion of general account investment assets on a standalone basis, of which loans and domestic debt securities accounted for 64.7%. Heungkuk Fire & Marine invests insurance premiums received from its policyholders in loans (including loans secured by real estate, policy loans, unsecured loans and project financings), domestic debt securities (including special bonds, financial bonds, corporate bonds and Government and Government-related bonds), beneficiary certificates, overseas securities (including foreign-currency denominated bonds and structured securities), real property investments, domestic equity securities and other securities (including structured securities and hybrid capital securities).

The following table summarizes information regarding Heungkuk Fire & Marine's general account investment assets, on a standalone basis, as of the dates indicated.

	As of December 31,						As of June 30,	
	2014		2015		2016		2017	
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Loans(1)	₩1,819	28.8%	₩2,428	31.7%	₩2,933	32.9%	₩3,076	32.4%
Domestic debt securities	2,250	35.6	2,461	32.2	2,873	32.2	3,073	32.3
Beneficiary certificates	788	12.5	977	12.8	1,254	14.0	1,453	15.3
Overseas securities	369	5.8	615	8.0	1,003	11.2	1,066	11.2
Cash and due from banks	526	8.3	503	6.6	219	2.5	232	2.4
Real property investments(2)	171	2.7	171	2.2	170	1.9	195	2.1
Domestic equity securities	8	0.1	7	0.1	8	0.1	13	0.1
Other securities(3)	383	6.2	488	6.4	467	5.2	394	4.1
Total	₩6,314	100.0%	₩7,650	100.0%	₩8,926	100.0%	₩9,502	100.0%

(1) Net of present value discount, allowance for loan losses and deferred loan origination costs and fees.

(2) Include land and buildings held as investment assets and real property used in Heungkuk Fire & Marine's operations.

(3) Include structured securities and hybrid capital securities.

On a standalone basis, the average yield on Heungkuk Fire & Marine's investment portfolio, net of management and administrative expenses, was 4.2%, 3.9% and 3.5% in 2014, 2015 and 2016, respectively, and 3.7% and 3.5% in the first half of 2016 and 2017, respectively.

Loans

Heungkuk Fire & Marine offers various loan products to qualified retail and institutional borrowers, which primarily consist of loans secured by real estate, policy loans to its existing policyholders and unsecured loans, as well as financings of social overhead capital projects and other project financings.

Domestic Debt Securities

Heungkuk Fire & Marine's domestic debt securities consist primarily of special bonds, financial bonds, corporate bonds and Government and Government-related bonds. As of June 30, 2017, substantially all of Heungkuk Fire & Marine's domestic bond portfolio comprised bonds with a credit rating of A and above as rated by Korean rating agencies.

Beneficiary Certificates

Heungkuk Fire & Marine's holdings of domestic beneficiary certificates, evidencing ownership in investment trusts managed by investment management companies in Korea, relate primarily to its equity investments in alternative assets including investment vehicles for social overhead capital projects.

Overseas Securities

Heungkuk Fire & Marine's holdings of overseas securities consist principally of foreign currency-denominated bonds issued by the Government and government agencies and foreign issuers including governments and corporations, as well as structured securities. Heungkuk Fire & Marine's overseas securities are primarily denominated in U.S. dollars. Heungkuk Fire & Marine seeks to hedge its foreign currency exposure under its overseas securities at the time of investment through currency swap contracts or other derivative instruments.

Insurance Operations

Underwriting and Pricing

Insurance underwriting by the Issuer and Heungkuk Fire & Marine involves the evaluation of applications for our insurance policies by a professional staff of underwriters, who determine the type and the amount of risk that we are willing to accept. We have established qualification requirements, review procedures and training programs for the selection and development of our underwriting professionals. We employ detailed and uniform underwriting policies, guidelines and procedures designed to assist our underwriters in assessing and quantifying risks before issuing a policy to qualified applicants.

Primarily in relation to our protection-type insurance policies (including long-term insurance policies) as well as certain of our other products, our underwriters generally evaluate the risk characteristics of each prospective policyholder. Requests for coverage are reviewed on their merits, and generally a policy is not issued unless the particular risk has been examined and approved for underwriting. We have different authorization limits and procedures depending on the amount and type of the policies. If the policy amount exceeds a specified amount, we generally require the applicant to take a variety of underwriting tests, including medical examinations, and, in the case of retail customers, obtain consumer investigative reports. We also have authorization limits for underwriting personnel depending on their level of qualifications. In order to maintain high standards of underwriting quality and consistency, we regularly engage in internal underwriting audits.

We primarily offer insurance products denominated in Won, and policy premiums are paid either in a single payment or on a periodic basis. Product pricing on insurance products, which reflects our insurance underwriting standards, is based on the expected payout of benefits, calculated through the use of various assumptions, such as for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. Those assumptions include a margin for expected profitability and are based on our own experience and published data from third party industry sources such as the KLIA and the GIAK. In the event that the assumptions used in the pricing of any of our non-renewable insurance products appear to deviate significantly from our subsequent experience, we stop further sales of such products and seek to replace them with new products having such terms and prices that preserve our intended margins. For renewable insurance products, including most of our health insurance riders, we are usually able to adjust the premiums on the next policy renewal date to reflect deviations from our original pricing assumptions.

As of June 30, 2017, the Issuer and Heungkuk Fire & Marine, on a standalone basis, each employed 13 actuaries certified in Korea. Our actuaries who are not assigned to the actuarial department are staffed across various departments and provide technical expertise in connection with our business operations, including assisting in new product development and conducting risk management analysis.

Customer Relationship Management

We devote significant resources to the management, servicing and retention of our existing policyholders through our customer relationship management activities. Our tied agents also strive to identify the additional insurance needs of our customers by analyzing the adequacy of their current coverage level based on each customer's personal and family situation and providing recommendations to supplement or adjust the customer's insurance coverage to better match his or her needs.

The Issuer and Heungkuk Fire & Marine each operate a telephone call center that handles various customer relations matters. Through our customer service representatives, our policyholders may make specific product and service inquiries, file complaints, report claims and update information regarding policyholders and beneficiaries, as well as request policy changes and apply for policy loans and withdrawals. In addition, we operate alternative customer service channels such as our mobile applications and our websites, which complement our traditional customer service channels. Our customers can make similar inquiries, complaints and service requests, as well as make online payments of premiums and receive payments for certain types of claims, through our mobile applications and our websites.

We maintain extensive customer databases that we use to segment our customers based primarily on a customer's current policy status, past policy purchases and interactions with our tied agents and personal and family demographics, while ensuring compliance with laws and regulations related to the protection of customer data, including the Personal Information Protection Act. We monitor and analyze such data on a regular basis to understand the reasons for fluctuations in demand from different customer segments, which serves as a basis for our future marketing and product development strategies. We develop analytical models based on such data in order to estimate the likelihood of additional policy purchases or policy surrenders for each customer segment, as well as to enhance our ability to match our distribution channels with potential customers.

We also engage in data analysis to identify our most valuable customers. For our most valuable customers who meet certain purchase volume and loyalty criteria, we provide invitations to exclusive promotional events, as well as premium discounts for high-premium products. Our dedication to customer satisfaction has been recognized by third parties in recent years, including most recently by the Korea Management Association, which granted the Issuer and Heungkuk Fire & Marine with an Award of Excellence for our call centers in its annual Korea Service Quality Index survey in 2016.

Claims Management

We typically manage the claims we receive from policyholders through our claims management staff located in our headquarters and branch offices. Typically, claims are received by our staff, who make a preliminary examination and forward them to our claims settlement team for further verification. We also engage third party claims examiners in relation to life insurance and property and casualty insurance policies. If the claim is valid, the amount payable is calculated and, once approved, is distributed to the policyholder.

We manage our claims management risk through organizational controls and computer systems controls. We also impose stringent requirements on the qualification and employment of claims management staff. Our organizational controls include specified authorization limits for various operating levels, periodic and *ad hoc* inspections at all levels of our organization, expense mechanisms linking payout ratios with expenses for our insurance policies, and requirements that claims examinations above certain monetary thresholds be performed by at least two staff members. For claims relating to our health insurance products, claim adjustment processes are facilitated through teams of supporting personnel with medical training. Our claims management control procedures are supported by electronic processing systems that are used for the verification and processing of claims.

Billing and Payment

Retail policyholders make payments through pre-authorized automatic debits from their designated bank account, by wire transfers to our designated bank accounts, by online payments using their personal accounts on our websites, through our mobile applications or in person at our branch offices or designated banks. Automatic debits are currently the most common method of collecting premium payments from retail customers. Substantially all of our retail policyholders pay monthly premiums through pre-authorized automatic payment methods, and we do not send monthly billing statements to such policyholders. If the balance in the policyholder's designated bank account as of the payment due date is insufficient to cover the premium payment then due, we will continue, after the payment due date, to submit automatic debit requests to the policyholder's bank for the unpaid portion of the premium.

Collection

We consider an insurance policy to be delinquent if payment of the balance of such premium payable under policy is not received on the date on which such payment was first due. Our collection procedures include contacting the customers by mail, electronic mail, phone and mobile text messaging. We discontinue insurance coverage if the policy remains delinquent for two months, following an additional two-week grace period.

We consider policy loans and other loans to be delinquent if payment of the interest or principal of such loan is not received on the date on which such payment was first due. Efforts to collect from customers whose loans are delinquent are primarily made by third-party debt collection service professionals. All legal proceedings related to collection efforts, if necessary, are undertaken by us. With respect to delinquent policy loans that are secured by the cash surrender values of the underlying insurance policies, we send out collection notices by mail, electronic mail, phone and mobile text messaging once the policy loan becomes delinquent, and subsequently terminate the policy loan and the underlying insurance policy and foreclose on the cash surrender value of such policy if the borrower does not respond to the collection notice by the specified response date. With respect to loans other than policy loans, we initially analyze delinquent loans using an internally developed scoring system, and each case is assigned a collection procedure. Our collection procedures for such loans generally include, depending on the type of loan, contacting the customers by phone, sending out overdue payment notices and, if deemed necessary, commencing legal proceedings through our legal team.

Reinsurance

We cede to various reinsurance companies portions of the risks we assume under our policies. We have entered into reinsurance agreements with various reinsurance companies, including Swiss Re, SCOR Global Life, RGA, Korean Re and Gen Re. These reinsurance agreements spread the risk and reduce the effect on us of potential losses. Under our internal reinsurance policies, we generally cede up to 50% of the risks we assume under our insurance contracts depending on the product type, primarily on a "quota share" or percentage basis as well as on a surplus or "excess-of-loss" basis. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the ceded portion in the event the claim is paid. However, we remain liable to our policyholders for the ceded portion if the reinsurer fails to meet the obligations assumed by it. In general, our reinsurance agreements with our reinsurers do not have a definite term, but some agreements allow for recapture of ceded insurance risk within five to ten years and agreements for new business may be terminated at the end of the year with advance notice of 90 days.

The Issuer does not reinsure any policies issued by other insurers, while Heungkuk Fire & Marine reinsures certain insurance risks relating to policies issued by other insurers as part of its general property and casualty insurance business. Total reinsurance premiums from Heungkuk Fire & Marine's assumed reinsurance policies amounted to Won 3 billion, Won 3 billion and Won 7 billion in 2014, 2015 and 2016, respectively, and Won 3 billion in the first half of 2017.

Competition

Competition in the Korean life insurance and property and casualty insurance industries is intense. Competition is based on a number of factors, including brand recognition, service, product features, price, quality of investment advice, investment performance, perceived financial strength and credit ratings. In recent years, there has been downward pressure on margins of insurance products as some of our competitors have sought to obtain or maintain market share by reducing margins and increasing marketing efforts. As the Korean life insurance and property and casualty insurance industries continue to mature, they may experience a slowdown in growth as well as a stagnation in market penetration. Due to these and other factors, we believe that competition in the Korean life insurance and property and casualty insurance industries will likely remain intense in the future. Sustained or increased competition may lead to decreases in our market share and our margins, resulting in a material adverse impact on our revenues and our profitability.

The Issuer competes principally with large Korean life insurance companies such as Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and Kyobo Life Insurance Co., Ltd., which historically have held substantial market shares in the Korean life insurance market. The Issuer also competes with other mid-sized domestic life insurance companies such as Mirae Asset Life Insurance Co., Ltd., Nonghyup Life Insurance Co., Ltd., ING Life Insurance Korea, Ltd. and Shinhan Life Insurance Co., Ltd., as well as Korean affiliates of foreign life insurance companies, such as Tong Yang Life Insurance Co., Ltd., MetLife Insurance Company of Korea, Ltd. and Prudential Life Insurance Company of Korea, Ltd., whose parent companies may have greater experience and resources in their respective home markets. In the Korean property and casualty insurance market, Heungkuk Fire & Marine primarily competes with domestic property and casualty insurance companies such as Samsung Fire & Marine Insurance Co., Ltd., Hyundai Marine & Fire Insurance Co., Ltd., Dongbu Insurance Co., Ltd., KB Insurance Co., Ltd., Meritz Fire & Marine Insurance Co. Ltd. and Hanwha General Insurance Co., Ltd., most of which have held larger market shares than Heungkuk Fire & Marine in recent years.

In addition, in specific areas such as savings insurance and variable insurance, our products also compete with those offered by commercial banks, securities companies and asset management companies. Furthermore, risk protection products with insurance features are also sold by the Korea Post through its extensive nationwide branch network. Certain of our competitors are larger in terms of asset size and customer base, have greater financial resources, offer a broader range of products or have access to a more extensive distribution network than we do. Moreover, a number of our competitors are affiliated with large Korean business or financial groups, which may provide a competitive advantage to the extent that they are able to take advantage of such affiliation, including through cross promotion opportunities and access to the existing customer base of their affiliates.

Furthermore, a number of significant mergers and acquisitions in the insurance industry have taken place in Korea in recent years, including the acquisition of Woori Aviva Life Insurance Co., Ltd., first by NongHyup Financial Group Inc. in 2014 and subsequently by DGB Financial Group in 2015, the acquisition of LIG Insurance Co., Ltd. by KB Financial Group Inc. in 2015, the acquisition of a controlling stake in Tong Yang Life Insurance Co., Ltd. in 2015 and the acquisition of Allianz Life Insurance in 2016, each by China's Anbang Insurance Group, and the acquisition of PCA Life Insurance Co., Ltd. by Mirae Asset Life Insurance Co., Ltd. in 2017. We expect that changes in the competitive landscape of the life insurance and property and casualty industries, as well as the financial industry generally, will continue.

Information Technology and Operational Systems

Our information technology systems provide support to many aspects of our businesses, including product development, distribution and marketing, customer relationship management, business management, cost control and risk management. We are committed to seeking opportunities to develop advanced tools that enhance our operations, including the performance of our distribution channels. We intend to continue to make significant investments in our information technology and operational systems through various technology initiatives, including efforts to:

- improve our data processing capabilities and enhance our systems for estimating insurance liabilities and for product pricing;
- enhance our risk management systems and accounting systems;
- improve our product development, actuarial and investment management capabilities;
- enhance the effectiveness of our distribution and marketing channels and customer relationship management activities;
- improve our disaster recovery systems and implement effective business continuation plans to reduce the risk of system failures and the impact such failures may have on our business; and
- promote overall efficiency, productivity and control.

Business continuity and information security are high priorities for us. We continue to enhance and develop contingency plans to provide reasonable assurance of business continuity in the event of disruptions at our critical facilities. The key elements of the plans are crisis management, business recovery, systems and data recovery and process improvement. In the area of information security, we have developed and implemented a framework of policies and technology to protect our information assets and those of our policyholders. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources. We maintain real-time backup systems for all our critical information technology and operational systems in Seongnam, Korea.

Properties

We own buildings and land throughout Korea with an aggregate book value of Won 991 billion as of June 30, 2017, including our headquarters building at 68, Saemunan-ro, Jongro-gu, Seoul, Korea. Portions of the properties we own are leased to various tenants on an arm's length basis.

Intellectual Property

We own the "Heungkuk" trade name and the Heungkuk logo, which are registered in Korea. The term of these registrations in Korea is generally ten years, and they are renewable for additional ten-year periods indefinitely, so long as the marks are still in use at the time of renewal. We are not aware of any claims of infringement or other challenges to our right to register or use our marks in Korea or in any other jurisdiction. We regard our trademarks and service marks as valuable assets in the marketing of our products and take appropriate action when necessary to protect them.

Insurance

We maintain insurance to cover risks associated with the ordinary operation of our business, including property coverage for our headquarters and branch offices, as well as director and officer liability insurance coverage. We do not maintain business interruption insurance. All of our policies are underwritten with reputable insurance providers. We believe that our insurance coverage is similar in scope to that which is customary for life insurance and property and casualty insurance companies in Korea.

Employees

The Issuer, on a standalone basis, had 853 employees (including 376 contract employees) as of December 31, 2014, 867 employees (including 298 contract employees) as of December 31, 2015, 804 employees (including 176 contract employees) as of December 31, 2016 and 658 employees (including 91 contract employees) as of June 30, 2017.

In addition, Heungkuk Fire & Marine, on a standalone basis, had 1,369 employees (including 436 contract employees) as of December 31, 2014, 1,395 employees (including 266 contract employees) as of December 31, 2015, 1,107 employees (including 118 contract employees) as of December 31, 2016 and 1,186 employees (including 170 contract employees) as of June 30, 2017.

We provide a wide range of fringe benefits to our employees, including housing and meal subsidies, medical, death and accident insurance, periodic health examinations, educational subsidies for long-term employee's children, special subsidies for significant personal events (such as marriage, birth of children or death of family members) and use of recreational facilities.

As of June 30, 2017, approximately 200 of the Issuer's employees and approximately 281 of Heungkuk Fire & Marine's employees were members of labor unions, and our relationships with these and other employees are generally governed by collective bargaining agreements. We negotiate collective bargaining agreements every two years and annually negotiate wage agreements. The current collective bargaining agreements of the Issuer and Heungkuk Fire & Marine are scheduled to expire in 2018. We have not experienced any strike or other material work stoppage in recent years and consider labor relations with our work force to be generally good.

Under Korean laws and regulations, we are restricted from terminating a full-time employee except under certain limited circumstances. The term of employment for contract employees is generally one year and is renewable at our option. We have contract employee performance evaluation systems in place, which serve to assess the performance of contract employees who have been employed by us for one year. Based on such evaluation, we may decide to change the status of certain contract employees to full-time employees.

In accordance with the National Pension Act of Korea, we contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. In addition, in accordance with the Employee Retirement Benefit Security Act, we have adopted retirement pension plans for our employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement pursuant to either a defined benefit plan or a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. For further information regarding our defined benefit plan, see Note 21 of the notes to our annual consolidated financial statements for 2016 and 2015 and for 2015 and 2014.

Legal and Regulatory Proceedings

We are subject to certain claims and are a party to certain legal and regulatory proceedings that are incidental to the normal course of our business. The legal proceedings currently pending against us primarily relate to customer claims in connection with insufficient explanation of insurance products at the time of sale, insurance settlement claims by our customers and commission-related claims by our tied agents and other agents. We are not currently involved in, nor is our management aware of any threat of, any litigation, administrative proceeding or arbitration, the outcome of which would, in the reasonable judgment of our management, have a material adverse effect on our financial condition or results of operations.

Risk-Based Capital Adequacy Requirements

Pursuant to the risk-based capital adequacy requirements implemented by the FSS, insurance companies are required to maintain a statutory ratio of available regulatory capital to risk-weighted assets of not less than 100%. Risk-based capital adequacy requirements require insurance companies to hold adequate capital to cover their exposures to interest rate risk, market risk, credit risk and operational risk as well as insurance risk by reflecting such risks in their calculation of risk-weighted assets. See "Regulation and Supervision — Risk-Based Supervision of Insurance Companies — Risk-Based Capital Adequacy Requirements."

Effective December 31, 2016, the FSS increased the confidence level applied in determining the credit risk amount for calculating the statutory risk-based capital adequacy ratio of insurance companies from 97% to 99% and required such statutory risk-based capital adequacy ratio to be calculated on a consolidated basis. Our risk-based capital adequacy ratio as of June 30, 2017 was 162.2% on a consolidated basis (189.3% on a standalone basis), compared to 145.4% as of December 31, 2016 on a consolidated basis (168.7% on a standalone basis), 183.1% as of December 31, 2015 on a standalone basis and 218.3% as of December 31, 2014 on a standalone basis.

Heungkuk Fire & Marine's risk-based capital adequacy ratio as of June 30, 2017 was 168.5% on a consolidated basis (also 168.5% on a standalone basis), compared to 154.9% as of December 31, 2016 on a consolidated basis (also 154.9% on a standalone basis), 150.9% as of December 31, 2015 on a standalone basis and 163.4% as of December 31, 2014 on a standalone basis. Our risk-based capital adequacy ratio on a consolidated basis is lower than both our risk-based capital adequacy ratio on a standalone basis and the risk-based capital adequacy ratio of Heungkuk Fire & Marine due to the effects of consolidation, pursuant to which our investments in subsidiaries are eliminated from the calculation of our available regulatory capital on a consolidated basis.

The following table sets forth our available capital and required capital for purposes of calculating our statutory risk-based capital adequacy ratio as of June 30, 2017, as well as a breakdown of our required capital as of such date for each of the five principal areas of risk.

	As of June 30, 2017
	(in billions of Won, except percentages)
Available capital	₩2,327
Required capital	1,435
Risk-based capital adequacy ratio	162.2%
Required capital	₩1,435
Interest rate risk	740
Insurance risk	278
Credit risk	659
Market risk	50
Operational risk	87

RISK MANAGEMENT

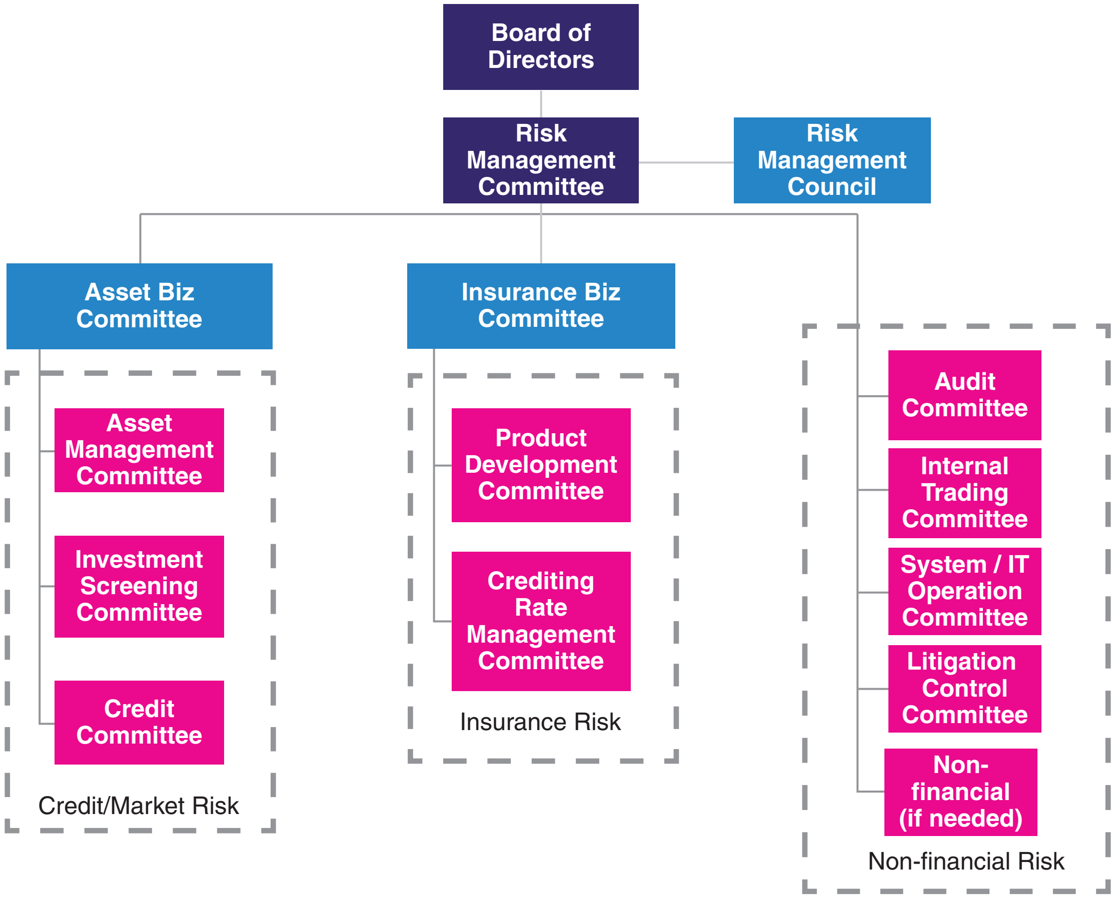
We believe that effective risk management is a key factor in ensuring our stable long-term growth and profitability, as well as our financial strength and capital adequacy. Accordingly, we have established comprehensive and integrated risk management infrastructures and policies to monitor, evaluate and manage the principal risks we assume in conducting our business activities, particularly market risk (including variable insurance guarantee risk), credit risk, interest rate risk, liquidity risk, insurance risk and non-financial risk. We employ a broad and diversified set of risk monitoring and risk mitigation techniques aimed at assessing and managing these risks in our insurance operations and investment portfolio, in light of changing economic and financial market conditions in Korea and in compliance with the applicable guidelines of the FSS.

Risk Management Infrastructure of the Issuer

The Issuer seeks to monitor and control its risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. Segregation of duties and management oversight are fundamental elements of the Issuer's risk management process, and the Issuer has established a multi-tiered risk management governance structure.

The Issuer's Risk Management Committee, chaired by Jae-dong Yoon, an outside director, is ultimately responsible for the general oversight of the Issuer's risk management process, as described below, and reports directly to the Issuer's board of directors. The Risk Management Committee is supported by the Issuer's Risk Management Council, which coordinates the execution of the overall policies and procedures established by the Risk Management Committee, as well as three groups of subcommittees that focus on the Issuer's asset business risk management, insurance business risk management and non-financial risk management, respectively. In addition, the Issuer's Risk Management Division, which is headed by the Issuer's chief risk officer, works closely with other departments and business units to implement financial risk management and non-financial risk management policies and procedures established by the Risk Management Committee and monitors the Issuer's risk exposure on an ongoing basis.

The following diagram illustrates the Issuer's overall risk management infrastructure:



Risk Management Committee

The Risk Management Committee is responsible for overseeing all risks relating to the Issuer's operations and advising its board of directors with respect to risk management-related issues. The Issuer's board of directors has delegated to the Risk Management Committee the board's authority and responsibility for ensuring effective overall management of the various risks the Issuer faces in its business activities. The Risk Management Committee currently comprises three members of the Issuer's board of directors, with the majority consisting of outside directors: Jae-dong Yoon (outside director), Woo-jin Lee (outside director) and Byung-ik Cho (chief executive officer and standing director). The Risk Management Committee meets quarterly and on an as-needed basis and periodically reports on company-wide risk management issues to the board of directors as required. The principal activities of the Risk Management Committee include:

- establishing and reviewing the Issuer's overall risk management policies and procedures and long-term plans relating to the Issuer's risk management system;
- determining specific risk tolerance levels and capital allocations for various business activities;
- monitoring, and approving strategies for maintaining, the Issuer's risk-based capital adequacy and solvency levels; and
- overseeing the operation of the Issuer's risk management systems and coordinating with the Risk Management Council and subcommittees, as well as the Risk Management Division, to facilitate an integrated risk management workflow.

The Risk Management Committee is supported by, and oversees the operations of, the following three groups of subcommittees that report directly to the Risk Management Committee: the Asset Biz Committee, the Insurance Biz Committee and the committees that deal with non-financial risk management.

Asset Biz Committee

The Asset Biz Committee, which monitors and discusses the Issuer's exposure to market and credit risks in connection with its asset management activities, is further divided into the following three sub-subcommittees:

- ***Asset Management Committee***. The Asset Management Committee supervises and monitors shorter-term tactical asset allocations based on changes in the market environment, duration of the Issuer's liabilities and regulatory capital requirements. The Asset Management Committee is also responsible for monitoring and assessing risks relating to structured products, alternative investment assets and low credit or non-performing debt securities, as well as for reviewing any major issues relating to the Issuer's financial asset management generally. The Asset Management Committee is chaired by the chief investment officer and also consists of the chief risk officer, the head of the Business Planning Office and the team heads under the Asset Management Division. The Asset Management Committee convenes on a quarterly basis and is primarily supported by the Financial Planning Team at the operational level.
- ***Investment Screening Committee***. The Investment Screening Committee supervises and monitors key decisions with respect to the Issuer's financial investments in order to ensure compliance with the Risk Management Committee's policies and restrictions relating to financial investments. The Investment Screening Committee is responsible for making decisions on all matters relating to alternative investments, new investments in domestic debt securities with external credit ratings below A+, and disposal of existing investments in debt securities experiencing a downgrading in external credit ratings. The Investment Screening Committee is chaired by the chief investment officer and also consists of the heads of the Asset Management Team, Risk Management Team, Investment Team, Separate Account Management Team and Financial Planning Team. The Investment Screening Committee convenes on an as-needed basis and is primarily supported by the Financial Planning Team at the operational level.
- ***Credit Committee***. The Credit Committee supervises and monitors the Issuer's credit exposures in order to ensure compliance with the Risk Management Committee's policies and guidelines relating to credit risk. The Credit Committee is responsible for reviewing and approving loans secured by real estate over a certain size threshold, as well as determining general ranges of applicable interest rates to be charged on the loans. The Credit Committee is chaired by the chief investment officer and also consists of the heads of the Asset Management Team, Risk Management Team, Personal Finance Team, Financial Investment Team and Financial Planning Team. The Credit Committee convenes on an as-needed basis and is primarily supported by the Personal Finance Team at the operational level.

Insurance Biz Committee

The Insurance Biz Committee, which monitors and discusses the Issuer's exposure to interest rate and insurance risks in connection with its life insurance business, is further divided into the following two sub-subcommittees:

- ***Crediting Rate Management Committee***. The Crediting Rate Management Committee is responsible for reviewing and advising on various issues related to interest rate risk, including the level of the Issuer's interest crediting rates, the level of guaranteed minimum interest payments for applicable insurance products and the target spread for policy loans. The Crediting Rate Management Committee also monitors interest rate trends and models the potential effects of interest rate movements on the Issuer's results of operations. The Crediting Rate Management Committee is chaired by the head of the Business Planning Office and also consists of the chief investment officer and the heads of the Product

Contracts Division and Customer Service Division. The Crediting Rate Management Committee convenes on a quarterly basis and is primarily supported by the Risk Management Team at the operational level.

- ***Product Development Committee***. The Product Development Committee is responsible for establishing the Issuer's long-term and short-term plans relating to product development as well as approving new and alternative insurance products in compliance with its risk management policies and guidelines. In addition, the Product Development Committee reviews the Issuer's risk exposures in connection with its outstanding insurance products and deliberates on remedial measures to address such risk exposures as necessary. The Product Development Committee also monitors insurance fraud risks. The Product Development Committee is chaired by the head of the Product Contract Division and also consists of the heads of the Marketing Division, Management Planning Division, Risk Management Team and Distribution Channel Team. The Product Development Committee convenes on a monthly basis and is primarily supported by the Product Development Team at the operational level.

Non-Financial Risk Management Committees

Several internal committees support the Risk Management Committee by monitoring and deliberating on issues relating to various types of non-financial risk, which refers to the risk of loss arising from shortcomings or failures in internal processes, personnel or systems, and from external events. The committees that deal with non-financial risk management include the Audit Committee, Internal Trading Committee, the System/IT Operation Committee and the Litigation Control Committee, each of which meets periodically and on an as-needed basis to review and advise on non-financial risk issues relevant to such committee. From time to time, the Issuer also forms and convenes other ad hoc committees consisting of appropriate internal personnel on an as-needed basis to review and advise on other types of non-financial risks that fall outside of the purview of the aforementioned internal committees.

Risk Management Council

The Risk Management Council supports the Risk Management Committee by setting the agenda to be discussed and resolved by the Risk Management Committee and overseeing the implementation of its decisions. The Risk Management Council is also responsible for reviewing risk tolerance levels set by the Risk Management Committee and monitoring individual categories of risks, including those related to the Issuer's investments. The Risk Management Council is chaired by the chief risk officer and also consists of heads of the Business Planning Office, Asset Management Division, Product Contract Division and Customer Service Division. The Risk Management Council convenes each quarter and on an as-needed basis.

Risk Management Infrastructure of Heungkuk Fire & Marine

Heungkuk Fire & Marine's Risk Management Committee is responsible for overseeing all risks of its business and advising its board of directors with respect to risk management-related issues. The committee consists of the chief executive officer of Heungkuk Fire & Marine and two non-standing directors. The major activities Heungkuk Fire & Marine's Risk Management Committee include:

- establishing and reviewing overall risk management policies in accordance with the directives of Heungkuk Fire & Marine's board of directors;
- approving limits for each type of risk and determining integrated risk tolerance levels; and
- overseeing the operation of Heungkuk Fire & Marine's risk management systems and infrastructure

Heungkuk Fire & Marine's key areas of Risk Management Committee is supported by four subcommittees that monitor and deliberate on relevant risk areas: the Asset Biz Committee, the Insurance Biz Committee, the Product Development Committee and the Non-Financial Risk Management Committee. Heungkuk Fire &

Marine's Risk Management Team, which is in charge of implementing and monitoring the operation of Heungkuk Fire & Marine's risk management policies and systems, is supported by other business units with respect to risk management activities for specific business areas.

Principal Risks of Our Insurance Operations

Market Risk Management

Market risk refers to the risk of changes in the returns on, and market value of, our trading and investing positions due to fluctuations in market factors such as interest rates, stock prices and exchange rates. The principal market risk to which we are exposed is interest rate risk, which primarily arises due to mismatches in the interest rates applicable to, or the maturities or re-pricing periods of, our interest rate-sensitive assets and liabilities. See "— Interest Rate Risk Management." To a lesser extent, we are also exposed to exchange rate risk, which results from exposure to changes in spot prices, forward prices and volatilities of currencies, as well as equity price risk, which arises from exposure of our investment portfolio to changes in prices and volatilities of beneficiary certificates, individual equity securities and equity indices. See Notes 44-I-(5)-1) and 44-II-5-(3) of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our exposure to market risk related to our life insurance business and property and casualty insurance business, respectively, as of December 31, 2016 and 2015.

We also monitor variable insurance guarantee risk as part of our market risk management. Variable insurance guarantee risk refers to the risk of loss from the value of the underlying assets supporting the Issuer's variable insurance policies falling below the value of the minimum guaranteed return on such policies. We measure and analyze variable insurance guarantee risk through a simulated, probability-based model based on actuarial data and regularly monitor the level of such risk against the relevant limit. The results of such analysis are also taken into account in establishing reserves for estimated guarantee liability and monitoring their adequacy on an ongoing basis, as well as for developing new variable insurance products.

As part of our management of market risk, we use a number of quantitative tools to analyze and manage our exposure to market risk for our long- and short-term financial instruments. These tools include stress testing, which is used as required to assess the general sensitivity of our market risk exposure to abnormal market fluctuations and to project the anticipated change in value of our positions in the event that the market moves in a manner that is outside our normal expectations (assuming that no action is taken during a stress event to change our risk profile), and stop loss limits, which are used to manage our exposure to fluctuations in prices affecting our securities portfolio. We have established and engage in stop loss processes with respect to specified categories of securities.

Sensitivity analysis measures the impact of hypothetical changes in market rates on our profitability and financial condition. See Notes 44-I-(5)-3) and 44-II-5-(4) of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding the estimated effects on our profit for the period and total equity of specified increases and decreases in interest rates, exchange rates and equity prices in relation to our life insurance business and our property and casualty insurance business, respectively.

Credit Risk Management

Credit risk represents the loss that we would incur if a counterparty failed to perform its contractual obligations to us or upon a deterioration in the credit quality of a counterparty, including borrowers or other third parties whose securities or other instruments we hold or who reinsure portions of the risks we assume under our insurance products. Our exposure to credit risk principally arises through our investing, lending and reinsurance ceding activities. See Notes 44-I-(4) and 44-II-4-(3) of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our credit risk exposures in connection with our life insurance business and property and casualty insurance business, respectively, as of December 31, 2016 and 2015.

Our credit risk management policy objectives are to improve our asset quality, reduce our non-performing assets and minimize our concentration risk through diversified, balanced and risk-weighted investment and reinsurance portfolios. To measure and manage our credit exposures, we use a variety of tools, including assessment of counterparty risk. In addition, our credit risk management system monitors credit exposure to individual counterparties and, on an aggregate basis, their affiliates. For example, we apply credit exposure limits for debt securities of large corporations and business groups based on external credit ratings, taking into account other factors such as their size and industry. Our maximum credit exposure limits for a single corporation vary by credit rating and industry.

Interest Rate Risk Management

Our results of operations depend, in part, on our level of net interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities. In particular, changes in market interest rates may affect the level and timing of recognition of gains and losses on investment assets held in our general account investment portfolios, in which debt securities represent the largest portion. In addition, some of our insurance products, principally fixed annuities, savings insurance policies and long-term insurance policies with guaranteed minimum annuity or interest payments, require us to pay fixed rates of return to policyholders and therefore expose us to the risk that changes in interest rates will reduce our "spread," or the difference between the amounts that we are required to pay under the relevant policies and the rate of return we are able to earn on our general account investments intended to support our obligations under the policies. See Notes 44-I-(3) and 44-II-3 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our interest rate risk exposure in connection with our life insurance business and property and casualty insurance business, respectively, as of December 31, 2016 and 2015.

We seek to manage interest rate risk through adjustments to our asset and liability portfolio mix and terms, such as decreasing the guaranteed level of interest crediting rates applied to our life insurance and long-term insurance products, and by managing, to the extent possible, the average duration and maturity of our assets and liabilities. We also manage interest rate risk through asset and liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. We periodically evaluate our interest rate risk exposure and closely monitor any changes to identify the primary factors for such change and to take appropriate remedial measures.

Liquidity Risk Management

We manage our liquidity risk through a set of liquidity risk management policies that are intended to maintain liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from our policyholders and others. We also manage liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of external funding we believe we are able to obtain. In addition, we maintain bank facilities in order to prepare for any unexpected temporary insufficiency of liquid assets. The level of such bank facilities is regularly adjusted to reflect changing conditions in the financial markets and volatility in our claims payments.

We closely monitor factors that could affect our liquidity management, including increases in surrender or termination of existing policies or policy benefit payments and decreases in premium payments or investment returns. We periodically evaluate and manage our liquidity risk exposure in terms of liquidity ratios and liquidity gaps and monitor our short-term liquidity positions on an ongoing basis. As part of our liquidity risk management processes, we use a number of quantitative tools, including stress tests, which are used as necessary to assess the sensitivity of our liquidity risk exposure to abnormal market fluctuations. Results of the stress tests are utilized to modify and enhance our liquidity contingency plans on a regular basis.

See Note 44-I-(6)-1) of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our short-term liquidity gap status in connection with our life insurance business as of

December 31, 2016 and 2015, and Note 44-II-5-(3) of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding the maturities of our outstanding financial liabilities in connection with our property and casualty insurance business as of December 31, 2016 and 2015.

Insurance Risk Management

We establish and carry, as a liability, policy reserves based on the greater of statutory reserves and actuarial estimates of how much we will need to pay for future insurance benefits and claims. Insurance risk is the risk of loss arising from our claims experience being different from reserved amounts as a result of variations from the actuarial estimates used by us when designing and pricing our insurance products. Our earnings depend significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our insurance products and establishing our reserves for future policy benefits and claims. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in pricing our insurance products and establishing these reserves, and our total reserves are considered to be inadequate to meet our future contractual obligations as and when they arise, we are exposed to insurance risk. See Notes 44-I-(2)-1) and 44-II-2-(3) of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our insurance risk exposure in connection with our life insurance business and property and casualty insurance business, respectively, as of December 31, 2016 and 2015.

We develop new insurance products pursuant to product approval and review procedures that include profitability guidelines based on various ratios and assumptions regarding pricing that are computed at secure and appropriate levels through periodic empirical analysis. We periodically test the adequacy of our policy reserves based on our current estimate liability, determined on the basis of the present value of expected payout of benefits and claims plus expenses, less future gross premiums, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. We also seek to manage our exposure to insurance risk by using assumptions that are based on our previous experience and data published by third party industry sources such as the KLIA and the GIAK, as well as judgments made by our management. We also establish early warning guidelines for our insurance products by coverage period and discontinue sales or revise policy benefits for products that trigger early warning signs. In addition, we periodically evaluate and manage our maximum insurance risk exposure and closely monitor changes in such insurance risk exposure to identify the primary factors for such change and to take appropriate remedial measures to minimize our losses in worst-case scenarios. In order to further mitigate our insurance risk, we cede to reinsurance companies portions of the risks we assume under our insurance products.

Non-Financial Risk Management

Non-financial risk relates to the risk of loss arising from shortcomings or failures in internal processes, personnel or systems, and from external events. Non-financial risk can arise from many factors ranging from routine processing errors to potentially costly incidents arising, for example, from major information technology and operational systems failures, and includes operational (which in turn includes legal and information technology risks), reputational and strategic risks.

We manage non-financial risk through the application of long-standing, but continuously evolving, organizational control standards, including through:

- the training, supervision and professional development of employees;
- active participation of, and communications with, the internal committees of the Issuer and Heungkuk Fire & Marine that deal with non-financial risk management, as well as members of senior management of the respective companies, in a continuous process of identifying and mitigating key non-financial risks;
- active involvement of departments with internal control functions prior to entering into material contracts;

- regular assessment of fundamental risk exposure as prescribed under the Regulation on Supervision of Insurance Business; and
- development and implementation of non-financial risk measurement standards and compliance and audit procedures.

Together, we believe these elements contribute to a strong control culture that serves as the foundation of our efforts to minimize events that create non-financial risk.

The Risk Management Committees of the Issuer and Heungkuk Fire & Marine are responsible for establishing and implementing standardized frameworks to identify, measure, monitor and manage non-financial risk relating to their respective companies on a continuous basis. This framework, which evolves with the changing needs of our businesses and regulatory guidance, takes into account internal and external non-financial risk events, business environment and internal control factors and the ongoing analysis of business-specific risk metrics. While individual business units have direct responsibility for the control and mitigation of non-financial risk, this framework provides a consistent methodology for identifying and monitoring operational risk factors at the business unit and company-wide levels.

In order to respond more effectively to the changing business environment and to meet new regulatory requirements, we regularly review and upgrade our information technology systems. The integrity of our information technology systems, and their ability to withstand potential catastrophic events, is crucial to our continuing operations. We have also implemented information security frameworks to protect our information assets and those of our policyholders. We periodically conduct threat exposure tests on our information assets, as well as regular testing against simulated cyber-attacks. We maintain real-time backup systems for all of our critical information technology and operational systems in Seongnam, Korea.

MANAGEMENT

Board of Directors

Our board of directors has the ultimate responsibility for the administration of our affairs. Our articles of incorporation currently provide for a board of directors consisting of no less than three directors, a majority of whom must be outside directors. Standing directors are directors who are full-time executive officers of our company, while outside directors are non-standing directors elected from among those persons who do not have a special relationship with us that would interfere with the exercise of their independent judgment. Directors are elected at a general meeting of shareholders by a majority vote of those present or represented so long as the affirmative votes also represent no less than 25% of the issued and outstanding shares with voting rights. Our outside directors are elected from among candidates who meet the qualifications set forth in the Korean Commercial Code and the Corporate Governance Act. The term of office for standing directors and outside directors is two years. Upon the expiration of an outside director's term, such outside director may be reappointed for one additional year, but may not be appointed for more than six consecutive years. The term of office for a director will be extended to the close of the annual general meeting of shareholders if the term of office for such director ends before the close of the annual general meeting of shareholders convened with respect to the last fiscal year within such term of office.

The representative director is a director elected by a resolution of our board of directors (which resolution requires the affirmative vote of a majority of our directors present at the relevant board meeting in which a majority of our directors in office are present) and is empowered to make day-to-day business decisions as our chief executive officer. Byung-ik Cho currently serves as our representative director.

Directors

The table below sets forth our directors and their ages and positions, as of the date of this offering circular. The business address of each of our directors, as well as our executive officers, is our registered office at Heungkuk Life Building, 68 Saemunan-ro, Jongro-gu, Seoul, Korea.

Name	Age[1]	Position	End of Current Term	Other Current Positions
Byung-ik Cho	58	Representative Director; Chief Executive Officer	March 2019	None
Cheon-il Kim	60	Managing Director; Senior Auditor	March 2019	None
Yong-jun Shin	55	Managing Director; Chief Marketing Officer	March 2019	None
Jae-dong Yoon	56	Outside Director	March 2018	None
Yeon-taek Chung	54	Outside Director	March 2019	Professor, Chungnam National University
Woo-jin Lee	54	Outside Director	March 2019	Professor, Korea University
Hwa-young Lee	60	Outside Director	March 2019	Visiting Professor, Sejong University

(1) As of June 30, 2017.

Executive Officers

Our executive officers consist of our chief executive officer, vice presidents, managing directors and associate managing directors. Our chief executive officer is appointed by the board of directors and other executive officers are appointed by the chief executive officer.

Our current executive officers, other than our directors, are as follows:

Name	Age(1)	Title and Responsibilities	Executive Officer Since
Jong-ho Song	51	Vice President for Legal Affairs	2017
Yong-tae Park	50	Managing Director and Chief Investment Officer	2015
Kwang-bok Lee	53	Managing Director for Human Resources	2017
Suk-hoon Kim	51	Managing Director and Head of Individual Sales Division	2012
Seung-ryong Ma	49	Managing Director and Head of Tied Agent and Telemarketing Sales Division	2016
Hyung-keun Yoo	53	Managing Director and Head of Corporate Sales Division	2017
Chang-keun Lee	46	Managing Director and Chief Human Resources Officer	2017
Ho-ju Lee	52	Managing Director and Chief Product Contract Officer	2017
Yeo-il Kim	57	Managing Director and Head of Volleyball Team	2017
Jin-woo Yoo	48	Managing Director and Chief Financial Officer	2017
Chun-suk Park	53	Managing Director and Head of Financial Planning Team	2017
Chang-jun Kim	51	Associate Managing Director and Head of Telemarketing Sales Division	2016
Hyung-pyo Kim	48	Associate Managing Director and Head of Compliance Team	2016
Dae-hong Kim	51	Associate Managing Director and Head of Bancassurance Sales Division	2017
Sun-hong Park	53	Associate Managing Director and Chief Customer Service Officer, Chief Communication Officer	2017
Noh-won Park	52	Associate Managing Director and Head of Marketing Team	2017
Min-seok Kang	48	Associate Managing Director and Chief Information Technology Officer, Chief Information Security Officer	2017
Baig-soo Lee	48	Associate Managing Director and Chief Risk Officer	2017
Do-kyung Kim	51	Associate Managing Director and Head of New Business Division	2017

(1) As of June 30, 2017.

Board Practices

In accordance with the Corporate Governance Act and our articles of incorporation, we have established the following committees under our board of directors:

- Executive Candidate Recommendation Committee;
- Audit Committee;
- Risk Management Committee; and
- Remuneration Committee.

Executive Candidate Recommendation Committee

Under the Korean Commercial Code and the Corporate Governance Act, we are required to have an Executive Candidate Recommendation Committee consisting of at least three directors, a majority of whom must be outside directors. The Executive Candidate Recommendation Committee is responsible for reviewing and recommending candidates for outside directors, Audit Committee members and the representative director for election at the general meeting of shareholders.

The Executive Candidate Recommendation Committee currently consists of three directors: Yong-jun Shin, Hwa-young Lee and Yeon-taek Chung. The Executive Candidate Recommendation Committee holds meetings when candidates for outside directors, Audit Committee members or the representative director need to be recommended or upon the request of a member of the committee.

Audit Committee

Under the Korean Commercial Code, the Corporate Governance Act and our articles of incorporation, we are required to have an Audit Committee consisting of three or more directors, at least two-thirds of whom must be outside directors. Members of the Audit Committee are elected by our shareholders at the general meeting of shareholders. The committee reviews all audit and compliance-related matters and makes recommendations to our board of directors. The Audit Committee's primary responsibilities include:

- engaging external auditors and evaluating their performance;
- reviewing annual financial statements;
- establishing, implementing and reviewing performance of internal audit plans;
- reviewing audit results and reports, including management comments and recommendations;
- reviewing, and making recommendations to enhance, our system of internal controls;
- reviewing remedial measures taken in respect of improprieties identified by audit activities; and
- examining improprieties or suspected improprieties.

In connection with the annual general meeting of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by the board of directors at, each such meeting.

The Audit Committee currently consists of three directors: Cheon-il Kim, Yeon-taek Chung and Woo-jin Lee. Meetings of the Audit Committee are held quarterly, and more often on an *ad hoc* basis if necessary.

Risk Management Committee

The Risk Management Committee is responsible for overseeing all risks relating to our operations and advising our board of directors with respect to risk management-related issues. See "Risk Management." The Risk Management Committee currently consists of three directors: Byung-ik Cho, Jae-dong Yoon and Woo-jin Lee. The Risk Management Committee meets quarterly and on an as-needed basis and periodically reports on company-wide risk management issues to our board of directors as required.

Remuneration Committee

The Remuneration Committee is responsible for reviewing and determining the operation of our compensation program. The Remuneration Committee's primary responsibilities include:

- determining and approving the level and structure of compensation of executive officers;
- preparing and publicly disclosing an annual compensation report;
- establishing and operating remuneration guidelines and evaluating their appropriateness;

- deliberating on matters relating to remuneration policies; and
- other matters relating to remuneration including performance evaluation.

The Remuneration Committee currently consists of three directors: Yong-jun Shin, Hwa-young Lee and Jae-dong Yoon. Meetings of the Remuneration Committee are held at least annually, and more often on an *ad hoc* basis if necessary.

Compensation of Directors

The aggregate compensation (including short-term and long-term benefits and retirement and severance benefits) granted to our directors was Won 1.3 billion, Won 0.9 billion and Won 0.8 billion in 2014, 2015 and 2016, respectively, and Won 0.4 billion and Won 0.7 billion in the first six months of 2016 and 2017, respectively. As of June 30, 2017, there were no loans or stock options granted by us to any of our directors or executive officers.

Interests of Directors and Executive Officers

As of June 30, 2017, there were no outstanding transactions other than in the ordinary course of business undertaken by us in which our directors or executive officers were interested parties. None of our directors or executive officers has any direct or beneficial interests in our shares.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information relating to our shareholder composition as of June 30, 2017.

Shareholder	Number of Common Shares Owned	Percentage of Total Common Shares Outstanding
Ho Jin Lee.	7,647,981	56.3%
Won Jun Lee	1,990,189	14.7
Daehan Synthetic Fiber Co., Ltd.	1,416,646	10.4
ILJU Academy and Culture Foundation	638,342	4.7
Dong Jun Lee	500,000	3.7
Tae Jun Lee	500,000	3.7
Korea Book Promotion Co., Ltd.	395,147	2.9
Jung Ah Lee	247,532	1.8
Sung Ah Lee	247,532	1.8
	13,583,369	100.0

Other than as set forth in the table above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of our outstanding common shares or exercised control or could exercise control over us as of the date hereof.

In January 2011, the Prosecutor's Office indicted Mr. Ho Jin Lee, our controlling shareholder, on charges of embezzlement, criminal breach of fiduciary duty and tax evasion, alleging that he misappropriated corporate funds of Taekwang Industrial Co., Ltd., one of our Taekwang Group affiliates controlled by him. The trial court and appellate court ruled against Mr. Lee. Mr. Lee appealed such decision and, in August 2016, the Supreme Court of Korea upheld the appellate court's decision but remanded the case to the Seoul High Court for reconsideration of certain factual determinations. In April 2017, the Seoul High Court sentenced him to a prison term of three years and six months and a fine of Won 0.6 billion. Mr. Lee appealed such ruling to the Supreme Court of Korea, where the case is currently pending. The charges against Mr. Lee do not relate to the regulatory evaluation of the ongoing eligibility requirements for the largest shareholder of a financial institution under the Corporate Governance Act, because Mr. Lee's relevant acts were committed prior to the implementation of the Corporate Governance Act in August 2016 and such Act does not apply retroactively. See "Regulation and Supervision – Authorization and License – Ongoing Eligibility Requirements for the Largest Shareholder." Mr. Lee is not, and has not been since 1997, an employee or a member of the senior management of the Issuer and is not involved in the management or day to day business of the Issuer.

TAEKWANG GROUP

We are a member company of the Taekwang Group, which was established in 1950 and is one of the 50 largest business groups in Korea. The Taekwang Group held combined assets of Won 7.1 trillion as of December 31, 2016, according to the Korean Fair Trade Commission.

The Taekwang Group is comprised of 26 companies, three of which are listed on the KRX KOSPI Market of the Korea Exchange. Member companies of the Taekwang Group operate across various major industries, including fiber and petrochemical, finance, media, education and others.

The following table shows the major member companies of the Taekwang Group, based on industry, as of June 30, 2017:

Finance	Fiber and Petrochemical	Media & Others
• Heungkuk Life Insurance Co., Ltd.	• Taekwang Industrial Co., Ltd.	• T-broad Co., Ltd.
• Heungkuk Fire & Marine Insurance Co., Ltd.	• Daehan Synthetic Fiber Co., Ltd.	• TSIS Co., Ltd.
• Heungkuk Securities Co., Ltd.		• Tcast Co., Ltd.
• Heungkuk Asset Management Co., Ltd.		
• Goryo Savings Bank Co., Ltd.		
• Yegaram Savings Bank Co., Ltd.		

TERMS AND CONDITIONS OF THE SECURITIES

The following, other than the language in italics, is the text of the Conditions of the Securities which (subject to modification) will be endorsed on each Security in definitive form:

The U.S.$500,000,000 4.475 per cent. Subordinated Capital Securities (the "**Securities**") of Heungkuk Life Insurance Co., Ltd. (the "**Issuer**") are issued subject to and with the benefit of an Agency Agreement to be dated November 9, 2017 (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, Citibank N.A., London Branch as fiscal agent, transfer agent and paying agent (the "**Paying Agent,**" and together with the fiscal agent, the "**Paying Agents**"), Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**"), Citibank N.A., London Branch as calculation agent (the "**Calculation Agent**") and the other agents named in it (together with the Fiscal Agent, the Registrar, the Calculation Agent and the other Paying Agents, the "**Agents**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Securities (the "**Securityholders**") at the specified office of each of the Paying Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents, the Calculation Agent and the Agents shall include any successor appointed under the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and principal amount

The Securities are issued in registered form in amounts of U.S.$200,000 and multiples of U.S.$1,000 in excess thereof (referred to as a "**principal amount**" of a Security). A certificate (each a "**Certificate**") will be issued to each Securityholder in respect of its registered holding of Securities.

Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar.

The Securities are not issuable in bearer form.

1.2 Title

Title to the Securities passes only by registration in the register of Securityholders. The holder of any Security will (except as otherwise required by law) be treated as its absolute owner for all purposes(whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Securityholder**" and (in relation to a Security) "**holder**" means the person in whose name a Security is registered in the register of Securityholders.

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

For a description of certain restrictions on transfers of interests in the Securities, see "Transfer Restrictions."

2.2 **Delivery of new Certificates**

Each new Certificate to be issued upon transfer of Securities will, within five Business Days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Security to the address specified in the form of transfer. For the purposes of this Condition, "**Business Day**" shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances, owners of interests in the Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Securities not so transferred will, within five Business Days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Securities not so transferred to the address of such holder appearing on the register of Securityholders or as specified in the form of transfer.

2.3 **Formalities free of charge**

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 **Closed periods**

No Securityholder may require the transfer of a Security to be registered during the period of 15 days ending on the due date for any payment of principal, premium (if any) or Distribution on that Security.

2.5 **Regulations**

All transfers of Securities and entries on the register of Securityholders will be made subject to the detailed regulations concerning transfer of Securities scheduled 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 Securityholder who requests one.

3. **STATUS**

3.1 **Status**

The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves, *pari passu* with any Parity Obligations of the Issuer and in priority to the claims of holders of Junior Obligations of the Issuer. The rights and claims of the Securityholders are subordinated as described in Condition 3.2.

3.2 **Subordination**

(a) *Subordination*

In the event of the Winding-Up of the Issuer, the rights and claims of the Securityholders to payment of principal and any Distribution under the Securities shall rank senior to, and in priority to, the claims of all holders of any present or future Junior Obligations of the Issuer, but shall be subordinated in right of payment to the claims of all other present and future senior and subordinated creditors of the Issuer (including, but not limited to, dated subordinated creditors of the Issuer), other than the claims of holders of Parity Obligations of the Issuer. The Securities will rank *pari passu* with Parity Obligations of the Issuer.

(b) *Set-off*

A Securityholder by its acceptance of a Security or its interest therein thereby agrees that (i) if any payment in respect of that Security is made to the Securityholder and the amount of the payment exceeds the amount, if any, that should have been paid to the Securityholder upon the proper application of these subordination provisions, the payment of the excess amount will be deemed null and void and the Securityholder (without any agent having any obligation or liability with respect thereto, except that the Fiscal Agent shall return to the Issuer (or, in the event of its Winding-Up, the liquidator or, as appropriate, administrator of the Issuer) in accordance with the instructions provided by the Issuer (or, in the event of its Winding-Up, the liquidator or, as appropriate, administrator of the Issuer), any excess amount which remains held by it at the time of the notice next referred to) will be obliged to return the amount of the excess payment, in accordance with the instructions provided by the Issuer (or, in the event of its Winding-Up, the liquidator or, as appropriate, administrator of the Issuer), within ten days of receiving notice from the Issuer (or, in the event of its Winding-Up, the liquidator or, as appropriate, administrator of the Issuer) of the excess payment, and (ii) the Securityholder will not exercise any right to set off any liabilities of the Issuer under the Security which become so payable (including overdue amounts) against any liabilities of the Securityholder owed to the Issuer unless, until and only in such amount as the liabilities of the Issuer under the Security become payable pursuant to the proper application of these subordination provisions. The Issuer will not exercise any right to set off any liabilities of the Securityholder owed to the Issuer against any liabilities of the Issuer under the Security.

4. DISTRIBUTION

4.1 Distributions

From and including November 9, 2017 (the "**Issue Date**"), subject to Conditions 4.6 and 4.7, each Security shall entitle the Securityholder thereof to receive distributions ("**Distributions**" and each a "**Distribution**") at the Distribution Rate applicable to the relevant Distribution Period in accordance with the provisions of this Condition.

4.2 Distribution Rate

The Distribution Rate for the Securities applicable to the relevant Distribution Period shall be:

(a) in respect of the period from, and including, the Issue Date to, but excluding, November 9, 2022 (the "**Initial Reset Date**" and such period, the "**Initial Rate Period**"), 4.475 per cent. per annum (the "**Initial Distribution Rate**");

(b) in respect of the period from, and including, the Initial Reset Date to, but excluding, November 9, 2027 (the "**Step-Up Date**"), a rate per annum equal to the sum of the Treasury Rate plus the Initial Spread (the "**Initial Reset Distribution Rate**"); and

(c) in respect of the period from, and including, the Step-Up Date or each Reset Date thereafter, as the case may be, to, but excluding, the immediately following Reset Date, the applicable Reset Step-Up Distribution Rate.

Subject to Condition 4.7, Distributions shall be payable on the Securities semi-annually in arrear on May 9 and November 9 in each year (each, a "**Distribution Payment Date**"), with the first Distribution Payment Date falling on May 9, 2018 in respect of the period from, and including, the Issue Date to, but excluding, such first Distribution Payment Date.

If a Distribution is required to be paid in respect of a Security on any date other than a Distribution Payment Date, it shall be calculated by applying the relevant Distribution Rate to the principal amount of such Security, multiplying the product by the Day Count Fraction (as defined below) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

Distributions payable under this Condition 4 will be paid in accordance with Condition 5.

4.3 **Calculation of Distribution Rate**

The Calculation Agent will, on each Reset Determination Date, calculate the applicable Reset Distribution Rate payable in respect of each Security. The Calculation Agent will cause the applicable Reset Distribution Rate determined by it to be notified to the Paying Agents and the Issuer as soon as practicable after such determination but in any event not later than the relevant Reset Date. Notice thereof shall also promptly be given by the Fiscal Agent to the Securityholders. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents and the Securityholders and no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

4.4 **Distribution accrual**

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distributions from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, the right to a Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (i) the date on which all sums due in respect of the Securities are received by or on behalf of the relevant Securityholder and (ii) the day which is seven days after the Fiscal Agent has notified the Securityholders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Securityholders under these Conditions).

4.5 **Notifications, etc. to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents and all Securityholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Securityholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

4.6 **Optional cancellation of Distributions**

Unless a Compulsory Distribution Payment Event has occurred, the Issuer may elect to cancel, in whole but not in part, payment of any Distribution otherwise scheduled to be paid on a Distribution Payment Date by giving notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent at least seven Business Days prior to such Distribution Payment Date (such notice to be accompanied by a certificate signed by an Authorised Representative of the Issuer stating that no Compulsory Distribution Payment Event has occurred).

In this Condition, a "**Compulsory Distribution Payment Event"** will occur if, during the 12-month period ending on the tenth Business Day prior to such Distribution Payment Date, the Issuer has declared, paid or made any dividend, distribution or other payment in respect of, or redeemed or purchased, any Junior Obligations or Parity Obligations (other than any such payment, redemption or purchase that is mandatory pursuant to the terms thereof).

4.7 **Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event**

Notwithstanding Condition 4.6, if a Capital Deficiency Event subsists as at the tenth Business Day prior to any Distribution Payment Date, any Distribution which has accrued for the relevant Distribution Period will not be due or payable on such Distribution Payment Date and payment of such Distribution will be mandatorily cancelled, in whole but not in part. The Issuer will give notice of the cancellation of a Distribution pursuant to this Condition 4.7 to the Securityholders in accordance with Condition 11 and to the Fiscal Agent as soon as possible but not less than seven Business Days prior to the relevant Distribution Payment Date (such notice to be accompanied by a certificate signed by an Authorised Representative of the Issuer stating that a Capital Deficiency Event has occurred).

4.8 **Distributions non-cumulative**

Distributions are non-cumulative. If the Issuer elects not to pay a Distribution in accordance with Condition 4.6, or is required not to pay a Distribution in accordance with Condition 4.7, such Distribution will not be due and payable on the relevant Distribution Payment Date and shall not accumulate or be payable at any time thereafter. If any Distribution is not paid on a Distribution Payment Date pursuant to and in accordance with Condition 4.6 or 4.7, the right of Securityholders to receive such Distribution not paid will be lost, and the Issuer will have no obligation to pay such Distribution, whether or not any amount of Distribution is paid for any future Distribution Period and the failure to pay such Distribution shall not constitute a default by the Issuer for any purpose.

For the avoidance of doubt, no Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to Condition 4.6 or 4.7. Accordingly, such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

4.9 **Restrictions in the case of a payment limitation**

If, on any Distribution Payment Date, payment of a Distribution scheduled to be paid is not made in full pursuant to Condition 4.6 or 4.7 or otherwise, the Issuer shall not:

(a) declare, pay or make any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is declared, paid or made on, any of its Junior Obligations or its Parity Obligations, save that such restriction shall not apply to payments in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or

(b) redeem, reduce, cancel, buy-back or acquire for any consideration on a discretionary basis any of its Junior Obligations or its Parity Obligations (except, in relation to Parity Obligations, where such redemption, reduction cancellation or buy-back is made on a *pro rata* basis with a *pro rata* purchase by the Issuer of Securities), save that such restriction shall not apply to an exchange of any of its Parity Obligations for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants,

in each case, until the next following Distribution Payment Date on which the Issuer pays in full the Distribution scheduled to be paid on such Distribution Payment Date.

5. **PAYMENTS**

5.1 **Payments in respect of Securities**

(a) Payment of principal, premium (if any) and Distribution will be made by transfer to the registered account of the Securityholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Securityholder if it does not have a registered account. Payments of principal and premium (if any) and payments of Distribution due otherwise than on a Distribution Payment Date will only be made against surrender of the relevant certificate at the specified office of any of the Agents. Distribution on Securities due on a Distribution Payment Date will be paid to the holder shown on the register of Securityholders at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of such Distribution.

(b) For the purposes of this Condition, a Securityholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Securityholders at the close of business, in the case of principal and premium (if any), on the second Business Day before the due date for payment and, in the case of Distribution, on the relevant record date, and a Securityholder's registered address means its address appearing on the register of Securityholders at that time.

5.2 **Payments subject to applicable laws**

All payments in respect of principal, premium (if any) and Distribution on Securities are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Securityholders in respect of such payments.

5.3 **Payment on Payment Business Days**

(a) Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of Distribution due otherwise than on a Distribution Payment Date, if later, on the Payment Business Day on which the relevant certificate is surrendered at the specified office of an Agent (other than the Calculation Agent).

(b) Securityholders will not be entitled to any Distribution or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Securityholder is late in surrendering its certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

(c) In this Condition, "**Payment Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Seoul, New York City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

5.4 **Partial payments**

If the amount of principal, premium (if any) or Distribution which is due on the Securities is not paid in full, the registrar will annotate the register of Securityholders with a record of the amount of principal, premium (if any) or Distribution in fact paid.

5.5 **Agents**

The names of the initial agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any agent and to appoint additional or other agents provided that at all times:

(a) there will be a Fiscal Agent;

(b) there will be a Registrar; and

(c) there will be a Calculation Agent.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Securityholders promptly by the Issuer in accordance with Condition 11.

In acting under the Agency Agreement and in connection with the Securities, the Agents act solely as agents of the Issuer and do not assume any obligations towards, or relationship of agency or trust for or with, any of the Securityholders.

6. **REDEMPTION AND PURCHASE**

6.1 **Issuer redemption and automatic extension**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer may, at its option, redeem the Securities, in whole but not in part, at their outstanding principal amount on November 9, 2047 (the "**Initial Issuer Redemption Date**") and on each date that falls thirty, or a multiple of thirty, calendar years after the Initial Issuer Redemption Date (each such date together with the Initial Issuer Redemption Date, an "**Issuer Redemption Date"**); *provided* that, if the Securities are not redeemed at the option of the Issuer on any Issuer Redemption Date, the tenor of the Securities will automatically be extended for 30 years from such Issuer Redemption Date; *provided* further that, if any Issuer Redemption Date would fall on a date that is not a Business Day, it will be postponed to the next Business Day.

The Issuer will give an irrevocable notice of its intention to redeem the Securities, not less than 30 nor more than 60 days prior to the relevant Issuer Redemption Date, to the Securityholders in accordance with Condition 11 and to the Fiscal Agent specifying the relevant Issuer Redemption Date, which will be a Business Day.

6.2 **Optional redemption**

The Issuer may, on the Initial Reset Date and on each Distribution Payment Date thereafter, upon giving notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent not less than 30 days but no more than 60 days prior to the proposed redemption date, redeem the Securities, in whole but not in part, at a redemption price equal to the principal amount of the Securities plus any accrued but unpaid Distributions to (but excluding) the date of redemption (other than any Distribution which has been cancelled pursuant to the provisions set forth in Condition 4.6 or 4.7) (the "**Optional Redemption Price**"); *provided* that, such redemption shall be subject to (i) the prior approval of the Financial Supervisory Service (the "**FSS**") or other relevant regulatory authorities of Korea (if then required) and (ii) satisfaction of any other conditions as required under the Regulation on Supervision of Insurance Business (as amended or modified from time to time, the "**RSIB**"), the Detailed Enforcement Regulations on Insurance Business Supervision (as amended or modified from time to time) or other successive regulations in effect at the time of such redemption ((i) and (ii) collectively, the "**Optional Redemption and Purchase Conditions**"). The Optional Redemption and Purchase Conditions applicable as of the Issue Date are as follows:

(a) such redemption may not occur within five years of the Issue Date; and

(b) either:

(i) immediately after such redemption (which shall have been decided by the Issuer at its sole discretion and approved by the FSS), the Issuer's Solvency Margin Ratio shall be equal to or greater than 150%; or

(ii) (A) the Issuer's Solvency Margin Ratio shall be equal to or greater than 100%; (B) prior to such redemption, the Issuer issues or incurs qualifying financing via instruments with stronger capital characteristics (such as shares or instruments with a maturity longer than the remaining maturity of the Securities and with more favourable financing terms, including but not limited to a lower interest rate) in an amount not less than the aggregate principal amount of the Securities to be redeemed; (C) the Distribution Rate of the Securities shall have been recognised by the FSS as significantly unfavourable to the Issuer due to changes in market conditions since the Issue Date; and (D) the Issuer shall have obtained prior approval from the FSS for such redemption.

The Issuer will notify the Securityholders of the Optional Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the date scheduled for redemption).

6.3 **Gross-Up Event redemption**

Subject to the satisfaction of the Optional Redemption and Purchase Conditions, if a Gross-Up Event has occurred and is continuing, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price. The Issuer will notify the Securityholders of the Optional Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the date scheduled for redemption).

Prior to giving a notice of redemption pursuant to this Condition 6.3, the Issuer will deliver to the Fiscal Agent (a) a certificate signed by an Authorised Representative of the Issuer stating that the Issuer is entitled to effect such redemption and (b) an opinion of independent tax counsel to the Issuer experienced in such matters to the effect that a Gross-Up Event with respect to Securities has occurred. The delivery of the opinion referred to in (b) will constitute conclusive evidence of the occurrence of a Gross-Up Event.

No notice of redemption with respect to a Gross-Up Event shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amount were a payment in respect of the Securities then payable.

6.4 **Regulatory Event redemption**

Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Regulatory Event, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price. The Issuer will notify the Securityholders of the Optional Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the date scheduled for redemption).

Prior to giving a notice of redemption pursuant to this Condition 6.4, the Issuer will deliver to the Fiscal Agent (a) a certificate signed by an Authorised Representative of the Issuer stating that the Issuer is entitled to effect such redemption and (b) an opinion of independent legal counsel to the Issuer experienced in such matters to the effect that a Regulatory Event with respect to the Securities has occurred. The delivery of the opinion referred to in (b) will constitute conclusive evidence of the occurrence of a Regulatory Event.

No notice of redemption with respect to a Regulatory Event shall be given earlier than 90 days prior to the earliest date on which the relevant change or amendment to law or regulation or interpretation of the regulatory capital requirements is due to take effect.

6.5 **Accounting Event redemption**

Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of an Accounting Event, the Issuer may, at any time upon giving not less than 30 days' notice to the

Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price. The Issuer will notify the Securityholders of the Optional Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the date scheduled for redemption).

Prior to giving a notice of redemption pursuant to this Condition 6.5, the Issuer will deliver to the Fiscal Agent (a) a certificate signed by an Authorised Representative of the Issuer stating that the Issuer is entitled to effect such redemption and (b) an opinion of independent auditors to the Issuer to the effect that an Accounting Event with respect to the Securities has occurred. The delivery of the opinion referred to in (b) will constitute conclusive evidence of the occurrence of an Accounting Event.

No notice of redemption with respect to an Accounting Event shall be given earlier than 90 days prior to the earliest date on which the relevant change or amendment to, or change in the interpretation of, relevant accounting standards is due to take effect.

6.6 **Tax Deductibility Event redemption**

Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Tax Deductibility Event, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price. The Issuer will notify the Securityholders of the Optional Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the date scheduled for redemption).

Prior to giving a notice of redemption pursuant to this Condition 6.6, the Issuer will deliver to the Fiscal Agent (a) a certificate signed by an Authorised Representative of the Issuer stating that the Issuer is entitled to effect such redemption and (b) an opinion of independent tax counsel to the Issuer experienced in such matters to the effect that a Tax Deductibility Event with respect to the Securities has occurred. The delivery of the opinion referred to in (b) will constitute conclusive evidence of the occurrence of a Tax Deductibility Event.

No notice of redemption with respect to a Tax Deductibility Event shall be given earlier than 90 days prior to the earliest date on which the loss of deductibility on Distributions payable on the Securities is due to take effect.

6.7 **No Other Redemption**

The Issuer shall not be entitled to redeem the Securities and shall have no obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 6.1 to 6.6, both inclusive.

6.8 **Purchase and cancellation of Securities**

Subject to satisfaction of the Optional Redemption and Purchase Conditions, the Issuer may after the fifth anniversary of the Issue Date purchase outstanding Securities by tender, in the open market or by private agreement. Any Securities so purchased by the Issuer will be immediately cancelled in accordance with the Agency Agreement and applicable law. The Issuer may make any payment in respect of such purchase as is authorised by applicable law.

6.9 **Notice final**

Upon the expiry of any notice of redemption as is referred to in Condition 6.1, 6.2, 6.3, 6.4, 6.5 and 6.6, the Issuer shall be bound to redeem the Securities to which the notice of redemption refers in accordance with the terms of such Condition.

Once a notice of redemption has been given under any of the provisions described in Condition 6.1, 6.2, 6.3, 6.4, 6.5 or 6.6, no similar notice of redemption may be given under any other options. If at any time the Securities may be redeemed under more than one such option, the Issuer may elect at its sole discretion under which option a notice of redemption is to be given.

The Fiscal Agent shall not be responsible for any failure by the Issuer to obtain the prior written approval of the Governor of the FSS (if required) or to satisfy any Optional Redemption and Purchase Conditions, or be concerned with the contents of any such approval or any notice of redemption.

7. TAXATION

All payments (if any) of principal of, premium (if any) on, and Distribution on, the Securities by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (the "**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Securities in the absence of the withholding or deduction, except that no Additional Amounts shall be payable in respect of any Security:

(a) to or on behalf of a holder who is subject to Taxes in respect of the Security by reason of its being or having been connected with any Relevant Jurisdiction otherwise than merely by holding such Securities, receiving principal, premium (if any) or Distribution in respect thereof or enforcing payments thereon;

(b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day; or

(c) any combination of items (a) and (b) above.

Any reference in these Conditions to any amounts of principal, premium (if any) and Distribution in respect of the Securities will be deemed also to refer to any Additional Amounts which may be payable under this Condition 7.

8. PRESCRIPTION

Claims in respect of principal, premium (if any) and Distribution will become prescribed unless made within 10 years (in the case of principal and premium (if any)) and five years (in the case of Distributions) from the Relevant Date.

9. NON-PAYMENT

9.1 Non-payment when due

Notwithstanding any of the provisions below in this Condition 9, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Issuer has elected not to pay it under the provisions set forth in Condition 4.6 or the Issuer is not required to pay it pursuant to Condition 4.7.

9.2 Proceedings for Winding-Up

If (i) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or (ii) the Issuer shall not make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Securities and Securityholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Securities may, subject to satisfaction of the relevant requirements of applicable law, institute proceedings for the Winding-Up of the Issuer and/or prove in the Winding-Up of the Issuer and/or claim in the liquidation of the Issuer for the principal amount of the Securities plus any accrued but unpaid Distribution (other than any Distribution which has not been paid pursuant to the provisions set forth in Condition 4.6 or 4.7).

9.3 **Enforcement**

Without prejudice to Condition 9.2, Securityholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Securities may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Securities (other than any payment obligation of the Issuer under or arising from the Securities, including, without limitation, payment of any principal or premium or satisfaction of any Distributions in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

9.4 **Extent of Securityholders' remedy**

No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Securityholders, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities.

10. **REPLACEMENT OF CERTIFICATES**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

11. **NOTICES**

All notices to the Securityholders will be valid if mailed to them at their respective addresses in the register of Securityholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication. It is expected that publication will normally be made in the *Asian Wall Street Journal*.

12. **MEETINGS OF SECURITYHOLDERS, MODIFICATION, SUBSTITUTION AND VARIATION**

12.1 **Meeting of Securityholders**

The Agency Agreement contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Securities held or represented by him or them, except that, at any meeting the business of which includes the modification of certain of these Conditions, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than 75 per cent., or at any adjourned meeting not less than a clear majority, of the principal amount of the Securities for the time being outstanding; *provided* that, no modification, amendment or waiver of any Security or the Agency Agreement may, without the consent of each Securityholder affected thereby:

(a) vary or abrogate the rights of such Securityholder relating to the amount of Distribution, or Additional Amounts, or the amount received by such Securityholder upon redemption of the Securities;

(b) change the date of the Initial Reset Date or the Step-Up Date;

(c) change the obligation of the Issuer to pay Additional Amounts;

(d) impair the right to institute suit for the enforcement of any payment with respect to any Security after the date on which such payment is due;

(e) change the place of payment of, or the coin or currency of payment of the principal of, premium (if any) on or Distribution on any Security; or

(f) reduce the above-stated percentage of aggregate principal amount of the Securities outstanding or reduce the quorum requirements or the percentage of votes required for the taking of any action;

provided, further, that the term of the Securities will be automatically extended for 30 years on the Initial Issuer Redemption Date or, if applicable, any subsequent Issuer Redemption Date, if they are not redeemed by the Issuer on such Initial Issuer Redemption Date or such subsequent Issuer Redemption Date, as the case may be. An Extraordinary Resolution passed at any meeting of the Securityholders will be binding on all Securityholders, whether or not they are present at the meeting.

12.2 **Modification**

The Fiscal Agent may agree, without the consent of the Securityholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Securityholders. Any modification shall be binding on the Securityholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 11.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution may consist of several instruments in the like form each executed by or on behalf of one or more Securityholders.

12.3 **Substitution or Variation**

The Issuer may (without any requirement for the consent or approval of the Securityholders but subject to Condition 12.4) at any time on giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 11 and to the Agents, either:

(a) substitute all, but not some only, of the Securities for; or

(b) vary the terms of the Securities with the effect that they remain or become (as the case may be),

Qualifying Securities if, at any time, a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event has occurred and is continuing (provided that, prior to giving such notice, the Issuer has delivered to the Fiscal Agent: (A) a certificate signed by an Authorised Representative of the Issuer stating that the Issuer would be entitled to effect a redemption in respect of such event pursuant to Condition 6 and (B) in respect of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event, an opinion that such event has occurred as described in Condition 6.3, 6.4, 6.5 or 6.6, respectively). Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities. Any such substitution or variation shall not be permitted if such substitution or variation would itself give rise to a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event in relation to the Qualifying Securities.

Notwithstanding the foregoing, should a substitution or variation take place at the option of the Issuer under this Condition 12.3, Conditions 3.2, 4.2, 4.6, 4.7, 4.8, 6.1, 6.2 and 15 will survive to the extent that they are necessary for the Securities to qualify as hybrid securities pursuant to the RSIB, the Detailed Enforcement Regulations on Insurance Business Supervision (as amended or modified from time to time) or other successive regulations in effect at the time of such substitution or variation.

12.4 **Approval**

Notwithstanding any of the above, no provision of Securities may be amended without the prior written consent of the Financial Services Commission (the "**FSC**"), the FSS or other relevant regulatory authorities of Korea (if then required) if such amendment would or may result in Securities not being treated as regulatory capital of the Issuer under applicable regulations then in effect.

13. GOVERNING LAW AND SUBMISSION TO JURISDICTION

13.1 **Governing Law**

The Agency Agreement and the Securities (and, in each case, any non-contractual obligations arising out of or in connection therewith) are and will be governed by, and construed in accordance with, English law, except that Condition 3.2 is governed by, and will be construed in accordance with, Korean law.

13.2 **Jurisdiction of English Courts**

(a) Subject to Condition 13.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Securities, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Securities (a "**Dispute**") and accordingly each of the Issuer and any Securityholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(b) For the purposes of this Condition 13.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(c) To the extent allowed by law, the Securityholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

13.3 **Appointment of Process Agent**

The Issuer hereby irrevocably and unconditionally appoints Law Debenture Corporate Services Limited as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

14. **RIGHTS OF THIRD PARTIES**

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

15. **DEFINITIONS**

For the purpose of these Conditions (except where otherwise defined) the expression:

(a) "**Accounting Event**" means that, as a result of any changes or amendments to, or change in the interpretation of, relevant accounting standards, the full principal amount of the Securities must not or must no longer be recorded as "equity" in the Issuer's financial statements prepared in accordance with such relevant accounting standards.

(b) "**Authorised Representative**" means, with respect to the Issuer, each officer of the Issuer and any other person duly appointed by such officer pursuant to a power of attorney with specific powers to perform such act on behalf of such officer; provided, however, that such power of attorney is granted in a legal and valid manner pursuant to the Issuers organisational documents.

(c) "**Business Day**" means a day which is 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 both Seoul and New York City.

(d) "**Calculation Date**" means, in relation to a Reset Period, the fifth Business Day preceding the Reset Date on which such Reset Period commences.

(e) "**Capital Deficiency Event**" means, as at the relevant date, (x) the Issuer being designated as an "insolvent financial institution" under subparagraph 2 of Article 2 of the Act on the Structural Improvement of the Financial Industry, as amended or modified from time to time ("**ASIFI**"), or (y) either a "management improvement recommendation," a "management improvement requirement" or a "management improvement order" has been issued by the FSC under the Articles 7-17, 7-18 and 7-19, respectively, or an "emergency measure" is imposed by the FSC under the Article 7-43 of the RSIB.

Any terms referred in Condition 15(e) are subject to change upon amendment or modification of the respective laws and regulations. For further information on "insolvent financial institution," "management improvement recommendation," "management improvement requirement" and "management improvement order" and the abovementioned provisions under ASIFI and RSIB, see "Risk Factors — Risks Relating to the Securities — Holders of Securities may not receive Distributions if the Issuer elects to cancel them or if a Capital Deficiency Event has occurred and is continuing" and "Regulation and Supervision of the Korean Life Insurance Industry."

The foregoing statement in italics does not form part of the terms and conditions of the Securities.

(f) "**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to the Reset Period and selected by an internationally recognised investment banking firm selected by the Issuer that is a primary U.S. government securities dealer as one that would be utilised, 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 Period.

(g) "**Comparable Treasury Price**" means, with respect to a Calculation Date, the average of the three Reference Treasury Dealer Quotations (as defined below) for such Calculation Date.

(h) "**declare**" and "**declaration**" mean either (i) the approval by the shareholders of the Issuer at a shareholders' meeting of the Issuer's statement of appropriations of retained earnings included in the annual financial statements or (ii) the approval by the board of directors of the Issuer of interim or quarterly dividend payment.

(i) "**Distribution Period**" means (i) the period beginning on (and including) the Issue Date and ending on (but excluding) the first Distribution Payment Date and thereafter (ii) each successive period beginning on (and including) a Distribution Payment Date and ending on (but excluding) the next succeeding Distribution Payment Date.

(j) "**Distribution Rate**" means the Initial Distribution Rate, the Initial Reset Distribution Rate and/or the Reset Step-Up Distribution Rate, as the case may be.

(k) "**Gross-Up Event**" means, on the occasion of the next payment due under the Securities, the Issuer has or will become obliged to pay Additional Amounts as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any political subdivision of, or any authority in, or of, a Relevant Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) on or after the Issue Date; and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

(l) "**Independent Adviser**" means any independent investment bank of international standing appointed by the Issuer at its own expense from time to time for the purposes of carrying out the duties described in these Conditions and in performing such role such entity shall have regard to the interests of the Issuer and the Securityholders alike.

(m) "**Initial Spread"** means 2.472 per cent. per annum.

(n) **"Junior Obligations"** means (i) any class of the Issuer's share capital (including but not limited to any preference shares) and (ii) any other obligations that rank or are expressed to rank, by their terms or by operation of law, junior to the Securities.

(o) "**London Banking Day**" means any day on which commercial banks are open for business (including dealings in foreign currency deposits) in London, the United Kingdom.

(p) "**Parity Obligations**" means any instrument or security issued, entered into or guaranteed by the Issuer (other than the Securities) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities.

(q) "**Qualifying Securities**" means, in relation to a substitution or variation of the securities following a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event (as the case may be), securities that:

   (i) have terms not materially less favourable to an investor than the terms of the Securities (as reasonably determined by an Independent Adviser);

   (ii) are issued directly or indirectly by the Issuer;

   (iii) shall (or have the benefit of a guarantee that shall) rank *pari passu* with the Securities on a Winding-Up of the Issuer thereof, shall preserve the Securityholders' rights to any payment of accrued and unpaid Distribution (subject to cancellation in accordance with Conditions 4.6 and 4.7) and shall contain terms which provide for the same Distribution Rate, Distribution Payment Dates and redemption events, from time to time applying to the Securities, and other terms of such securities are substantially identical (as reasonably determined by an Independent Adviser) to the Securities, save for the modifications or amendments to such terms that are specifically required to be made in order to avoid or resolve the Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event, as the case may be;

   (iv) have been, or will on their issue date be, assigned at least the same equity credit as, or higher equity credit than, the credit rating as that assigned by a Rating Agency to the Securities immediately prior to such substitution or variation (if the Securities are at such time rated); and

   (v) are listed on The Stock Exchange of Hong Kong, the Singapore Exchange Securities Trading Limited or another securities exchange of international standing regularly used for the listing and quotation of debt securities offered and traded in the international markets.

(r) "**Rating Agency**" means Moody's Investor Services, Inc. ("Moody's") or Fitch Ratings, Inc. ("Fitch") (including any of their respective successors to the ratings business, and if Moody's or Fitch has ceased to provide rating services for the Securities, such other ratings agency as may have been appointed by the Issuer at such time, such as Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc.).

(s) "**Reference Treasury Dealer Quotations**" means, with respect to a Calculation Date, the average, as determined by the Paying Agent, of the bid and ask prices 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 internationally recognised investment banking firms selected by the Issuer that are primary U.S. government securities dealers.

(t) "**Regulatory Event**" means that where the Securities have been recognised as regulatory capital of the Issuer in the FSC's calculation of the Issuer's regulatory capital ratios and at a subsequent time, due to a change of law, regulation or interpretation thereof, which change becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) after the Issue Date, there is more than an insubstantial risk that the Securities would not, or would no longer, be eligible, in whole or in part, to be included within the regulatory capital ratios of the Issuer.

(u) "**Relevant Date"** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 11.

(v) "**Relevant Jurisdiction"** means the Republic of Korea or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal, premium (if any) and Distribution on the Securities.

(w) **"Reset Date**" means the Initial Reset Date, the Step-Up Date and each date that falls five, or a multiple of five, calendar years after the Step-Up Date.

(x) "**Reset Determination Date"** means, in relation to a Reset Period, the second London Banking Day before the commencement of such Reset Period for which the applicable Reset Distribution Rate will apply.

(y) "**Reset Distribution Rate**" means the Initial Reset Distribution Rate or the Reset Step-Up Distribution Rate, as the case may be.

(z) "**Reset Period"** means the period from and including the Initial Reset Date to but excluding the next Reset Date (being the Step-Up Date) and thereafter each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

(aa) "**Reset Step-Up Distribution Rate"** means, in relation to any Reset Period that commences on or after the Step-Up Date, the Treasury Rate in relation to that Reset Period plus the Initial Spread plus the Step-Up Margin per annum, calculated on the relevant Reset Determination Date.

(bb) "**Solvency Margin Amount"** means (i) the aggregate of paid-in capital, reserves for dividends to policyholders, bad debt allowances, subordinated borrowings and amount of other similar items (as determined and announced by the FSC) *minus* (ii) the aggregate of unamortised deferred acquisition cost, goodwill and amount of other similar items (as determined and announced by the FSC).

(cc) "**Solvency Margin Ratio"** means the ratio obtained by dividing the Solvency Margin Amount by the Standard Solvency Margin Amount. Under the current Korean solvency regulations applicable to insurance companies, the Solvency Margin Ratio corresponds to the risk-based capital adequacy ratio under the risk-based capital regime implemented by the FSS.

(dd) "**Standard Solvency Margin Amount**" means the result produced by converting the risks that may arise while carrying out an insurance business into a certain amount by using the method determined and announced by the FSC.

(ee) "**Step-Up Margin**" means one per cent. per annum.

(ff) "**Tax Deductibility Event**" means the occurrence of a more than insubstantial increase in the risk that Distributions payable by the Issuer on the Securities are not, or will no longer be, deductible by the Issuer, in whole or in part, for Korean (or, in the case of a successor person, such other jurisdiction of the successor person, as applicable) tax purposes, as a result of (i) any change (including any officially announced proposed changes in, or amendment to, the laws or regulations (or rulings promulgated thereunder) of Korea (or, in the case of a successor person, such other jurisdiction of the successor person, as applicable) or any political subdivision or any authority thereof or therein having power to tax, that becomes effective on or after the Issue Date (or, in the case of a successor, following the date of succession), or (ii) any administrative decision, judicial decision, administrative action or any other official pronouncement interpreting or applying those law, regulations or rulings that is announced on or after the Issue Date (or, in the case of a successor, following the date of succession), and, in each case, such non-deductibility cannot be avoided by the Issuer through the taking of reasonable measures available to the Issuer.

(gg) "**Treasury Rate"** means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the rate (expressed in per cent. per annum) notified by the Calculation Agent to the Issuer and the Securityholders (in accordance with Condition 12) equal to the yield, under the heading that represents the average for the week immediately prior to the relevant Reset Determination Date, 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 Federal Reserve System, available on the world-wide-website of the Board of Governors of the Federal Reserve System at http://www.federalreserve.gov/releases/h15/ or any successor site, and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue, or if there is no Comparable Treasury Issue with a maturity date that falls within three months before or after the following Reset Date after such Reset Period, yields for the two published maturities most closely corresponding to such Reset Period will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the relevant Reset Determination Date or does not contain such yields, the Treasury Rate shall be the rate (expressed in per cent. per annum) equal to the semi-annual 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 the relevant Reset Determination Date.

(hh) "**Winding-Up**" means a final and effective order or resolution by a competent authority for the bankruptcy, winding up, liquidation or similar proceedings in respect of the Issuer.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Securities while they are in global form, some of which modify the effect of the terms and conditions of the Securities. The following is a summary of those provisions. Capitalized terms used below without definition have the meanings ascribed to them in "Terms and Conditions of the Securities."

The Securities will initially be represented by the Global Certificate, which will be deposited with a common depositary for Euroclear and Clearstream (the "Common Depositary") or its nominee and registered in the name of the Common Depositary or nominee, for the accounts of Euroclear and Clearstream. Euroclear and Clearstream will credit their relevant accountholders with their respective beneficial interests in the Securities represented by the Global Certificate. Ownership of beneficial interests in the Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream or persons who hold interests through such accountholders. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by Euroclear, Clearstream or such accountholders. For so long as Euroclear, Clearstream or any of their nominees is the registered holder of the Global Certificate, Euroclear, Clearstream or such nominee, as applicable, will be considered the sole holder of the Securities represented by the Global Certificate for all purposes under the Agency Agreement and the Securities.

Payments

Payments of principal, Distributions or any other amounts in respect of Securities represented by the Global Certificate will be made to the Common Depositary or its nominee, as applicable, as the registered holder thereof. None of the Issuer, the Fiscal Agent or any other Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial interests. We expect that the Common Depositary or its nominee, as applicable, upon receipt of any payment in respect of any Securities represented by the Global Certificate, will promptly credit the accounts of the relevant accountholders of Euroclear and/or Clearstream with payments proportionate to their respective beneficial interests in the Global Certificate as shown in their records.

So long as the Global Certificate is held on behalf of Euroclear or Clearstream or any other clearing system, each payment made in respect of the Global Certificate will be made to the person shown as the Securityholder in the register at the close of business (for the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "Record Date"), where "Clearing System Business Day" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Exchange for Individual Certificates

The Global Certificate will be exchanged in whole (but not in part) for duly authenticated and completed individual certificates ("Individual Certificates") if (a) the Common Depositary or any successor Common Depositary or Euroclear or Clearstream notifies us that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or ceases to be a clearing agency under applicable law, or is at any time no longer eligible to act as such, and we are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility or (b) any of the circumstances described in Condition 9 of the Terms and Conditions of the Securities occurs.

Delivery of Certificates

Whenever the Global Certificate is to be exchanged for Individual Certificates, such Individual Certificates shall be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the Securityholder or the Common Depositary, to the Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Securities scheduled thereto and, in particular, shall be effected without charge to any Securityholder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "business day" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar has its Specified Office.

Meetings

For the purposes of any meeting of Securityholders, so long as at least the Relevant Fraction (as defined in the Agency Agreement) of the aggregate principal amount of the outstanding Securities is represented by the Global Certificates or a single Individual Certificate, a single voter appointed in relation thereto or being the holder of the Securities represented thereby shall be deemed to be two voters for the purpose of forming a quorum.

Notices

So long as the Global Certificate is held on behalf of Euroclear or Clearstream or any other clearing system (an "Alternative Clearing System"), notices to holders of Securities represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear or Clearstream or (as the case may be) such Alternative Clearing System.

Singapore Paying Agent

For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate is exchanged for Individual Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Individual Certificates may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for Individual Certificates, an announcement of such exchange shall 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 Individual Certificates, including details of the paying agent in Singapore.

REGULATION AND SUPERVISION

Under the Insurance Business Act, a company seeking to engage in the insurance business in Korea is required to obtain business authorizations and licenses from the FSC, and such company is required to comply with the Insurance Business Act and the Corporate Governance Act, and their respective subordinate rules and regulations, in operating its business. These rules and regulations cover, among other things: (i) the requirements for obtaining business authorizations and licenses to operate an insurance company; (ii) the scope of business an insurance company may undertake; (iii) the operations of an insurance company, including its asset management activities; (iv) the operations of a foreign insurance company in Korea; (v) methods of insurance solicitation; (vi) supervision of the insurance business; and (vii) disciplinary actions for violation of the Insurance Business Act, which may include revocation of license, imprisonment, suspension of operations, fines, surcharges and penalties.

The Corporate Governance Act, the Enforcement Decree of the Corporate Governance Act and the Enforcement Rules of the Corporate Governance Act also provide for, among other things: (a) requirements for the directors, officers and certain employees of an insurance company and matters to be observed by them; (b) requirements for obtaining approval to become a large shareholder of an insurance company (defined as (1) the largest shareholder and its specially-related persons; or (2) major shareholders holding 10% or more of the equity interest in, or exercising de facto control over, such entity), and certain on-going eligibility requirements to be met by the largest shareholder; (c) the corporate governance structure of an insurance company, including the requirements for outside directors and committees of the board of directors; and (d) matters relating to the internal control system of an insurance company.

The FSC has the authority to oversee matters involving licenses necessary for, and supervision of, the insurance business. Through the Regulation on Supervision of Insurance Business and the Regulation on Corporate Governance of Financial Companies, the FSC provides detailed criteria for obtaining the authorization necessary to engage in the insurance business, as well as various comprehensive standards required to be met by an insurance company as determined by the FSC. The FSC entrusts the FSS with certain matters pursuant to the Regulation on Supervision of Insurance Business, which are specified under the Detailed Enforcement Regulations on Insurance Supervision.

Since an insurance company falls within the scope of a financial institution under the Act on the Structural Improvement of the Financial Industry, special provisions thereunder apply to an insurance company in the event (i) it merges with, or converts into, another financial institution, (ii) it becomes bankrupt or insolvent or is dissolved or (iii) members of its business group acquire shares of another company by more than a certain percentage. In addition, an insurance company that offers and sells investment-type insurance products (such as variable insurance) and manages assets under special accounts for variable insurance policies falls within the scope of a financial investment company under the FSCMA. Such insurance company deemed as a financial investment company is subject to certain provisions under the FSCMA such as regulations on the control of conflicts of interest as well as the establishment and maintenance of firewalls for asset management of special accounts related to variable insurance policies. Furthermore, pursuant to the Foreign Exchange Transactions Act, an insurance company is required to obtain prior approval from the Ministry of Strategy and Finance, the Bank of Korea, the FSS or a foreign exchange bank and may have to file subsequent ongoing reports if the company engages in any of the following: (a) a transaction involving a foreign currency; (b) a transaction with a non-resident involving either the Won or a foreign currency; (c) a transaction that requires a payment to be sent abroad; (d) a transaction through which a payment will be received from overseas; and (e) any other transaction prescribed under the Foreign Exchange Transactions Act.

Authorization and License

Criteria for Establishment

Under the Insurance Business Act, an entity seeking authorization to engage in insurance business in Korea must have (i) paid-in capital of not less than Won 30 billion; (ii) sufficient manpower and adequate facilities;

(iii) sound and reasonable business plans; and (iv) a large shareholder meeting certain eligibility criteria. If the large shareholder is a financial institution, it is required to meet the following criteria:

- the large shareholder's equity must not be less than 300% of the total amount of investment in the insurance company;
- the financial soundness of the large shareholder must meet certain standards;
- if the large shareholder belongs to a large business group under the Monopoly Regulation and Fair Trade Act, the debt ratio of such group may not exceed 200%;
- the large shareholder must not have been subject to any criminal penalty equivalent to or more severe than a criminal fine during the last five years for violation of certain laws regulating the financial industry, including the Insurance Business Act, the Banking Act, the FSCMA, the Monopoly Regulation and Fair Trade Act and the Punishment of Tax Evaders Act;
- for the last five years, the large shareholder must have maintained sound credit level by not failing to perform its obligations;
- if the large shareholder was a large shareholder or a related party of a financial institution which has been designated as a distressed financial institution pursuant to the Act on the Structural Improvement of the Financial Industry or whose license, registration or approval has been revoked pursuant to certain financial regulations, the large shareholder must have satisfied the standards as declared by the FSC by bearing the economic responsibility resulting from the distress;
- the amount to be invested by the large shareholder must not have been obtained through a loan, and the source of such investment amount must be clear; and
- the largest shareholder must not have received any administrative sanctions equivalent to or more severe than an institutional warning for the last one year, or a corrective order or business suspension for the last three years.

If the large shareholder is a non-financial institution, foreign corporation or private equity fund, it is required to satisfy a different set of criteria as set forth under the Insurance Business Act and its subordinate regulations.

Eligibility for Becoming an Officer

Anyone (i) incapacitated, declared bankrupt or sentenced to criminal charges; (ii) who was a former officer of a company that had its license or authorization revoked under applicable law; (iii) who has been sanctioned by the FSC or the FSS pursuant to the Corporate Governance Act, the Insurance Business Act or any other financial or regulations within the preceding three- or five-year period, depending on the nature of the sanctions; or (iv) who represents the interest of another person in connection with the asset management of a relevant insurance company, including those who have a special relationship with a person that entered into a credit transaction with a balance of Won 1 billion or more with the relevant insurance company, is restricted from becoming a director, an auditor or an executive officer of an insurance company.

Approval of Large Shareholders

A person seeking to become a large shareholder of an insurance company through acquisition of the company's shares must meet certain criteria as set forth in the Corporate Governance Act and its subordinate regulations, and obtain prior approval from the FSC. Specific criteria differ based on whether such large shareholder is a financial institution, a fund, a local or foreign enterprise or individual or a private equity fund.

Ongoing Eligibility Requirements for the Largest Shareholder

Under the Corporate Governance Act, the financial regulators evaluate every two years whether the largest shareholder of a financial institution meets certain ongoing eligibility requirements. If such financial institution becomes aware that its largest shareholder fails to meet any of such requirements, it is required to report such fact to the FSC. Such requirements would not be met if (i) the largest shareholder becomes incapacitated; (ii) the largest shareholder becomes bankrupt; (iii) the largest shareholder receives a penalty equivalent to or more severe than a fine pursuant to the Corporate Governance Act or other financial regulations; (iv) a financial company for which the largest shareholder serves as an officer or an employee is ordered to take a corrective measure or receives an administrative sanction under the Act on the Structural Improvement of the Financial Industry; (v) the largest shareholder as a financial company's officer or employee receives certain disciplinary actions under the Corporate Governance Act or other financial regulations; or (vi) the largest shareholder receives any criminal sanction equivalent to or more severe than a criminal fine as a result of a violation of the Corporate Governance Act, the Monopoly Regulation and Fair Trade Act, the Punishment of Tax Evaders Act or other financial regulations.

If the largest shareholder fails to meet any of the above requirements, the FSC may request the financial institution to take measures to prevent any conflict of interest with the largest shareholder (such as restricting such financial institution from dealing with the largest shareholder) or other necessary measures such as publicly disclosing such failure on its website. In addition, if the largest shareholder receives a criminal sanction equivalent to or more severe than imprisonment of one year or longer as a result of its violation of the Corporate Governance Act, the Monopoly Regulation and Fair Trade Act, the Punishment of Tax Evaders Act or other financial regulations, its voting right for shares held that constitute 10% or more of the issued shares of the financial institution may be restricted by the FSC for a period of up to five years.

Revocation of License

The FSC may revoke the license to engage in insurance business for any of the following material violations by an insurance company: (i) receiving a license based on false information or using dishonest methods; (ii) violation of any of the terms upon which the license was conditioned; (iii) engaging in business during a suspension period; and (iv) failure to comply with a corrective order issued by the FSC.

Sales

Scope of Business of Insurance Companies

Under the Insurance Business Act, an insurance company is prohibited from concurrently operating a life insurance business and a property and casualty insurance business (including property, marine and cargo and liability insurance), provided that an insurance company may concurrently operate a "type three" insurance business (including casualty, disease and health care insurance) and provide reinsurance to other insurance companies. However, limited cross-selling of life insurance and property and casualty insurance products by insurance sales agents working for life insurance or property and casualty insurance companies in Korea is permitted by the FSC. See "— Insurance Solicitation."

Upon approval by the FSC, a life insurance company may operate (i) a life insurance business, (ii) a pension insurance (including retirement insurance) business and (iii) type three insurance businesses, while a property and casualty insurance company may operate (i) various types of property and casualty insurance businesses (including property, marine and cargo, automobile, guarantee, reinsurance and certain other enumerated property and casualty insurance as designated under the Enforcement Decree of the Insurance Business Act as well as liability insurance) and (ii) type three insurance businesses.

Both life insurance and property and casualty insurance companies may also operate financial businesses and incidental businesses designated by the Enforcement Decree of the Insurance Business Act. Such activities include:

- securitized assets management business under the Asset-Backed Securitization Act;

- securitized assets management business under the Securitization Companies for Mortgage-Backed Bonds Act;
- credit-backed assets management business under the Korea Housing Finance Corporation Act;
- collective investment business, investment advisory business, discretionary investment management business and trust business, business of principal investment and brokerage of collective investment securities under the FSCMA;
- business of electronic funds transfer under the Electronic Financial Transaction Act;
- any ancillary business of the insurance business subject to the conditions that (a) such business does not harm the company's management soundness, obstruct the protection of the policyholders or harm the stability of the financial market, and (b) such business is reported to the FSC at least seven days prior to the commencement of such activities;
- foreign exchange business under the Foreign Exchange Transaction Act; and
- retirement pension operation business under the Employee Retirement Benefit Security Act.

Overlap of Products between Life Insurance and Property and Casualty Insurance Companies

Under the Insurance Business Act, both life insurance companies and property and casualty insurance companies may engage in type three insurance business covering casualty, disease or health care. The amendments to the Insurance Business Act adopted in 2003 and its related enforcement decree allowed life insurance companies, starting in May 2005, to sell products that cover actual damages arising from casualty and diseases, which products formerly could be offered only by property and casualty insurance companies. In the case of property and casualty insurance companies, the amendments in 2003 clarified that such insurance companies may sell property and casualty insurance products that offer death benefits in the case of death arising from illness, subject to certain limitations on liability. As a result, there is no clear distinction between these insurance products offered by life insurance companies and property and casualty insurance companies.

Retirement Pension

The Employee Retirement Benefit Security Act, which incorporates the relevant provisions of the Labor Standards Act, provides for a comprehensive retirement benefit system consisting of several different plans available to employers and their employees, in addition to the previous severance system. The purpose of the Employee Retirement Benefit Security Act, which became effective on December 1, 2005 for employers with five or more employees, is to provide employees with stable income after retirement. Under the Employee Retirement Benefit Security Act, such employers are required to adopt at least one of the following retirement benefits plans: (i) a severance payment plan; or (ii) a retirement pension plan in the form of a defined benefit plan or a defined contribution plan. Employers with less than 10 employees may also establish individual retirement pension plans in lieu of one of these plans. For employers that previously maintained a severance payment system, the employer is required to obtain consent from the labor union (if it is organized by the majority of the employees) or the majority of its employees in order to implement a retirement pension plan in the form of a defined benefit plan or a defined contribution plan.

Under the Employee Retirement Benefit Security Act, qualified financial institutions, including insurance companies, may engage in the retirement pension operation business and are required to be registered with the Ministry of Employment and Labor as a retirement pension operator. Retirement pension operators are subject to the supervision of the Ministry of Employment and Labor and the FSC. The Employee Retirement Benefit Security Act requires qualified retirement pension operators to carry out their responsibilities in good faith and with due care and to comply with the agreement entered into with the employer in connection with retirement pension management and administration. Qualified retirement pension operators are also required to submit a report on the performance results of the retirement pension accounts to the employer, the Ministry of

Employment and Labor and the FSS within ten days following the end of each month, one month following the end of each fiscal quarter (applicable only to the report to be submitted to the FSS) and three months following the end of each fiscal year.

Variable Life Insurance

Under Article 251(1) of the FSCMA, an insurance company must obtain authorization for collective investment scheme services in order to establish and operate a special account under a variable insurance contract. However, pursuant to Article 77 of the FSCMA, which provides in relevant part that an insurance company is deemed to have obtained an authorization of financial investment services for brokerage or dealing pursuant to Article 12 thereof in the case where an insurance company enters into a contract for insurance with investment components or acts as a broker or an agent, an insurance company may sell a variable insurance contract without a separate license. However, in order for an insurance company to sell other collective investment securities, such insurance company must obtain a separate license for dealing or brokerage. Insurance companies engaging in the sale of variable life insurance products are required to maintain separate accounts related to such products.

Insurance companies offering variable life insurance products may be held liable for damages incurred by their policyholders as a result of their improper solicitation tactics during the sales process of variable life insurance products, such as misrepresenting profit margins of a fund. Sales of variable life insurance products in Korea are currently self-regulated by the Korea Life Insurance Association. Under Articles 95-3 and 95-4 of the Insurance Business Act, an insurance company or any person engaging in insurance solicitation must (i) understand, among other things, the purpose for which a policyholder is purchasing insurance before entering into a variable life insurance contract; (ii) not persuade such policyholder to purchase an insurance contract which is deemed inappropriate for such policyholder; and (iii) include the following details, among others, in its variable life insurance advertisements: the variability of insurance proceeds depending on asset management results and the scope of applicable deposit protection.

General Terms of Insurance Policy

Although a standard contract designated by the governor of the FSS is generally used for each insurance product, a modified standard contract may be used after filing a report to the FSC prior to using such contract in the event a standard contract is unsuitable for use due to specific features of an insurance product. Each insurance contract must be clearly drafted and easy to understand and not violate reasonable expectations of policyholders or public interest. Pursuant to the Regulation of Standardized Contracts Act, if an insurance sales agent fails to deliver to a policyholder an insurance contract and a copy of the written application, or fails to explain to the policyholder any material term of a contract, the insurance company may not claim that any terms of such contract should be enforceable against such policyholder. Furthermore, if an insurance sales agent fails to deliver to a policyholder an insurance contract and a copy of the written application, or fails to explain to the policyholder any material term of a contract, the policyholder may cancel such policy within three months from the date of execution. An unfair insurance contract provision contrary to the good faith principle is deemed null and void.

Insurance Solicitation

The Insurance Business Act limits entities that may engage in insurance solicitation to insurance sales agents, insurance agencies (including those of financial institutions), insurance brokers and officers and employees of an insurance company. Any entity wishing to act as an insurance sales agent, insurance agency (including those of financial institutions) or insurance broker must register with the FSC and report promptly to the FSC the occurrence of certain changes prescribed under the Insurance Business Act.

Insurance brochures used for insurance solicitation must clearly specify the terms required under the Insurance Business Act in an easy-to-understand manner. Where an insurance company or any person engaging in insurance solicitation persuades an ordinary policyholder to enter into an insurance contract, it must explain to such ordinary policyholder about certain critical matters of the insurance contract prescribed by the Enforcement Decree of the Insurance Business Act, including insurance premiums, coverage scope and restriction on the payment of insurance proceeds, in a manner the policyholder can easily understand.

Where an insurance company or any person engaging in insurance solicitation advertises an insurance product, it must include the details of such insurance product in such advertisement as prescribed under the Insurance Business Act and must not engage in any act, among others, which may lead to a misunderstanding that such insurance product would provide a large amount of insurance proceeds by emphasizing selective terms and conditions of such product or introducing cases where a large amount of insurance proceeds were paid.

In connection with the execution or solicitation of an insurance contract, any person engaging in insurance solicitation must not engage in any act prohibited under the Insurance Business Act, including acts of providing a policyholder with false information regarding an insurance product and acts intended to interrupt or prevent a policyholder from notifying an insurance company of an important matter relevant to an insurance policy.

Any person engaging in insurance solicitation is prohibited from providing special benefits (including, but not limited to, cash over a certain amount and discounts on insurance premiums) in connection with the execution of an insurance contract unless such special benefits are stipulated in the underlying documents for such insurance product. In addition, an insurance company is prohibited from entrusting any person other than those who are eligible under the Insurance Business Act to engage in insurance solicitation or paying any compensation to any ineligible persons for his or her insurance solicitation. The Insurance Business Act and the Enforcement Decree of the Insurance Business Act also prescribe in detail certain practices that insurance agencies of financial institutions are restricted from engaging in, including, but not limited to:

- offering additional services, such as providing a loan, on condition that the individual purchase a life insurance policy; and
- including insurance premiums in loan transactions without the prior consent of the borrower.

The Insurance Business Act permits insurance sales agents working for Korean life insurance companies to cross-sell property and casualty insurance products of one property and casualty insurance company, and insurance sales agents working for Korean property and casualty insurance companies are correspondingly permitted to cross-sell the life insurance products of one life insurance company.

Bancassurance

In August 2003, the Government commenced a phased introduction of the bancassurance distribution channel, starting with savings-type insurance products. Shortly after the implementation of the initial phase, a number of adverse market inefficiencies and problems were observed. In response, the insurance regulators adopted various policy measures in March 2005, including limiting the amount of insurance products of a particular insurance company that a financial service company may sell to 25% of its total sales of insurance policies, which has since led to the inclusion of standard non-exclusivity provisions in bancassurance agreements. In addition, the schedule for the phased introduction of protection-type insurance for individuals was modified to be limited to type three insurance such as casualty, disease and health care insurance. In March 2008, due to concerns over a potential mass termination of insurance sales agents, the fourth phase of bancassurance de-regulation relating to protection-type life insurance for life insurance companies and long-term protection-type insurance and auto insurance for property and casualty insurance companies was indefinitely postponed. Accordingly, life insurance companies may use the bancassurance channel only to distribute individual savings-type insurance products, including individual pension, annuity and endowment, credit protection policies and type three insurance covering personal casualty, disease or health care expenses. Property and casualty insurance companies may utilize the bancassurance channel only with respect to individual pension, long-term savings-type insurance, credit protection policies, residential fire insurance, casualty insurance (excluding group insurance), package insurance and type three insurance covering casualty, disease or health care expenses.

Financial institution insurance agencies are required to engage in the marketing of bancassurance products through in-person meetings with customers in specified locations designated for such sale or through their Internet homepages targeting unspecified masses. Financial institution insurance agencies (other than credit card companies under the Specialized Credit Financial Business Act) are prohibited from engaging in marketing activities by visitation, telemarketing, or marketing through mail or email. In addition, each financial institution is required to staff bancassurance sales personnel, and the number of such personnel is required to be limited to two persons per branch, with an exception for the hiring of an insurance sales agent. Bancassurance sales personnel are prohibited from handling consumer credit transactions or other activities that may result in illegal sales, including cross-selling of loan products with insurance products. Regulators have also instituted criteria for reporting any modification of the underlying terms and conditions of the insurance products that are sold through bancassurance sales channels. For instance, the bancassurance acquisition cost is required to be set within a 50% range of the expected acquisition cost for insurance products not sold through bancassurance sales channels. Commissions payable for the sale of bancassurance products are required to be disclosed on the financial institution's website as well as during in-person sales meetings.

New Premium Calculation Method

Previously, premiums for life and property and casualty insurance products were calculated based on the "three-source method" using expected basic rates such as risk ratio, interest rate and expense ratio. The FSS implemented an enhanced calculation method called the "cash flow pricing system" starting in April 2010. The key change in the cash flow pricing system is that the costs of insurance products are calculated by using various factors affecting the cash flow of an insurance company, including actual acquisition costs, insurance claim payments and surrender values based on statistics from the company's past experience. Pricing is ultimately decided by adding a certain amount of margin based on marketing strategy, sales volume and market competitiveness. Under the cash flow pricing system, insurance companies are able to calculate insurance premiums specifically tailored for different marketing strategies, types of insurance products and customer characteristics. These changes have also facilitated development of additional insurance products and enabled insurance companies to have more flexibility in managing their insurance and actuarial functions.

Products

Basic Documents for Insurance Products

An insurance company must prepare basic documents, which include standard terms and conditions, a business operation manual and a premiums and reserves calculation manual, for an insurance product that it intends to sell and comply with their terms. Where an insurance company intends to prepare a basic document or change any terms thereof, and such action falls under any of the following categories, the insurance company must report such action to the FSC in advance:

- where a new insurance product is introduced or it becomes mandatory to subscribe to an insurance product as a result of an enactment or an amendment of laws or regulations;
- where an insurance company solicits purchases of insurance products through an insurance agency of a financial institution; or
- cases prescribed by Presidential Decree for protection of policyholders.

An insurance company must establish procedures and standards (a "Standard on Management of Basic Documents") to be observed in preparing or changing basic documents and comply with the terms thereunder. The Standard on Management of Basic Documents must include certain provisions required under the Insurance Business Act. Where an insurance company newly establishes or amends its Standard on Management of Basic Documents, the insurance company must report such action to the FSC.

Compulsory Property and Casualty Insurance Products

Subscription to certain types of property and casualty insurance, such as (i) automobile insurance for automobile owners covering liabilities from bodily harm to others and (ii) fire insurance for owners of certain types of "specialty buildings" (such public buildings, educational and medical facilities, factories, markets and multi-home dwellings that satisfy certain statutory requirements which consider, among other things, the risk of fire and the size of such buildings) covering liabilities from losses of others, is compulsory under applicable statutes, in each case subject to an enumerated minimum level of coverage required under the relevant statute and its subordinate regulations. Property and casualty insurance companies may not refuse to issue such compulsory insurance policy to any person who wishes to purchase it except in limited circumstances as may be prescribed in the relevant statute or its subordinate regulations. A property and casualty insurance company that has issued the types of compulsory insurance policies that are also prescribed under the Enforcement Decree of the Insurance Business Act must guarantee the payment of the applicable compulsory insurance benefits and set aside certain minimum amounts, which amounts must be based on the insurance premiums received and the relevant liability reserves, as multiplied by the applicable rate set forth in the Enforcement Decree of the Insurance Business Act, with the Korean General Insurance Association to support its obligations under such policies.

Accounting and Risk Management

Calculation

An insurance company is required to close its books on December 31 of each year and submit, within three months, its financial statements and business report to the FSC in accordance with the specifications prescribed by the FSC.

An insurance company is required to report, for every settlement period and based on the types of insurance contracts, the liability reserve and the catastrophe risk reserve prescribed under the Enforcement Decree of the Insurance Business Act, and account for each of such reserves separately. In order to ensure proper calculation of liability reserve and catastrophe risk reserve, the FSC may establish accounting standards with respect to the assets and expenditure of insurance companies and any other matters prescribed under the Enforcement Decree of the Insurance Business Act. Other details necessary for the calculation of such reserves are prescribed under ordinances of the Prime Minister, the Regulation on Supervision of Insurance Business and the Detailed Enforcement Regulations on Supervision of Insurance Business.

Risk Management

In order to secure an insurance company's ability to pay insurance claims and assure the soundness of its management, an insurance company is required to meet the following requirements:

- a risk-based capital adequacy ratio (i.e., a solvency ratio) of not less than 100%;
- classification of its assets, including loan portfolio, and corresponding reserves of bad debt allowances; and
- the standards set by the FSC with respect to the risks, liquidity and reinsurance management of insurance companies.

With respect to requirements regarding the risk-based capital adequacy ratio, see "— Risk-Based Supervision of Insurance Companies."

The FSC may take additional necessary measures, such as ordering an insurance company to increase its capital or placing limits on the holding of risky assets, in order to ensure financial soundness of an insurance company.

An insurance company registered to perform foreign exchange work under the Foreign Exchange Transactions Act is also required to separately manage foreign currency assets and liabilities according to maturity terms, as well as maintain the following ratios:

- assets that will mature within three months must be greater than 80% of liabilities that will mature within the same period; and
- with respect to the maturity for foreign currency assets and liabilities, as follows:
  - if the term to maturity is not more than seven days, liabilities may not exceed assets; and
  - if the term to maturity is not more than one month, liabilities may not exceed 10% of assets.

Dividends to Policyholders of Participating Products

Under the Insurance Business Act, insurance companies that have sold participating insurance products, which provide a participation feature in the form of dividends to the policyholders, are required to separately account for the gains between participating products and non-participating products and pay dividends to policyholders of participating products only with gains allocated to participating products. At the end of each fiscal year, an insurance company must first retain policy reserves from its overall income and then allocate the remaining income, if any, as either gains from (i) participating products; (ii) non-participating products; or (iii) capital account. The foregoing (ii) and (iii) are allocated to the shareholders and may be paid out as dividends to shareholders. For (i), at most 10% of such gains may be allocated to shareholders and the remainder must be allocated to the participating policyholders.

When allocating gains, they are classified as mortality gains, expense gains, investment gains or other gains. Mortality gains and expense gains are determined on a policy-by-policy basis, while investment gains are divided between participating products and non-participating products based on the ratio of their respective policy reserves, and other gains are divided between participating products and non-participating products based on the ratio of their respective premium income. However, with respect to investment gains from investment assets, including marketable securities newly acquired after 2008, gains are also allocated to the applicable account, whether participating product, non-participating product or capital account, based on the ratio of the funds from such source used for the acquisition of investment assets to the company's total assets. The gains that were attributed to participating products as described above, together with the amounts carried forward from the previous year as reserves, may be paid out to participating policyholders as dividends after the end of each fiscal year.

Asset Management

Restrictions on Asset Management

Insurance companies are prohibited from engaging in the following categories of activities: (i) possessing real estate other than business facilities or certain investment projects; (ii) possessing real estate through special accounts; (iii) extending loans for the purpose of speculating in goods or securities; (iv) extending loans to their own officers or employees; (v) extending loans to purchase their own shares; (vi) extending loans to establish political funds; and (vii) committing any act that is prohibited under the Enforcement Decree of the Insurance Business Act as having the potential to greatly undermine the safety of the asset management business.

Subject to certain exceptions, major restrictions relating to management of general account assets by insurance companies are as follows:

- extension of credits to the same individual or corporation: 3% or less of total assets;
- the aggregate amount of bonds and shares issued by the same corporation: 7% or less of total assets;
- the aggregate amount of credits extended to and the bonds and shares issued by the same borrower: 12% or less of total assets;

- the aggregate amount of credits extended in excess of 1% of total assets to the same individual, corporation, borrower or large shareholder (including its specially related parties): 20% or less of total assets;
- extension of credits to large shareholders and certain subsidiaries: 40% or less of shareholder's equity (or, in the event that the amount equivalent to 40% of shareholder's equity is larger than the amount equivalent to 2% of total assets, 2% or less of total assets);
- the aggregate amount of bonds and shares issued by large shareholders and certain subsidiaries: 60% or less of shareholder's equity (or, in the event that the amount equivalent to 60% of shareholder's equity is larger than the amount equivalent to 3% of total assets, 3% or less of total assets);
- extension of credits to the same subsidiary: 10% or less of shareholder's equity;
- holding of permitted real estate: 25% or less of total assets; and
- holding of foreign exchange or foreign real estate: 30% or less of total assets.

Insurance companies are also required to own and manage assets under separate accounts pursuant to certain restrictions and ratios.

If an insurance company acquires (i) beneficiary certificates of an investment trust of which such insurance company is the sole beneficiary or (ii) shares of an investment company of which such insurance company is the sole shareholder, under the FSCMA, the restrictions on asset management described above apply to such insurance company as if it had acquired the asset directly.

Restrictions on Dealings with Large Shareholders

In order to promote transparent asset management of insurance companies, the Insurance Business Act generally prohibits unfair dealings between insurance companies and their large shareholders, and requires public disclosure of dealings between insurance companies and their large shareholders. When an insurance company extends loans to, or acquires bonds or shares issued by, its large shareholders in excess of the lesser of 0.1% of its shareholder's equity and Won 1 billion, such insurance company must obtain a unanimous resolution from its board of directors.

Restrictions on Equity Investments

Insurance companies are prohibited from holding voting shares or equity interests issued by another company in excess of 15% of the total number of such voting shares or equity interests; provided that, such holdings are permitted upon approval by the FSC, or, with respect to any company with close business relationship with the insurance industry, upon filing a report with the FSC.

Establishment and Operation of Separate Accounts

Insurance companies must establish and operate separate accounts on the balance sheet and income statements relating to variable life insurance policies, retirement pension policies, tax-qualified pension savings products and asset-linked insurance products.

Restrictions on Foreign Exchange Transactions

Major types of foreign currency assets that may be traded by insurance companies are (i) shares listed or to be listed on a foreign securities exchange; (ii) shares of such insurance companies' subsidiaries; (iii) shares, equity interests or beneficiary certificates issued by a foreign fund; (iv) shares of companies mainly engaging in certain insurance-related business which are not listed on a foreign securities exchange; (v) interests in foreign private equity funds; (vi) foreign currency-denominated beneficiary certificates; (vii) credit linked notes, credit linked deposits or synthetic collateralized debt obligations, as long as the underlying assets are assigned a credit rating of investment grade or above for securities of Korean issuers and a credit rating of upper-medium grade (A- or above by Standard & Poor's or an equivalent rating assigned by another credit rating agency) or above for securities of foreign issuers; (viii) securities in foreign currency issued by Korean residents which are assigned a credit rating of investment grade or above or are guaranteed by a financial institution of the same or a higher credit rating; (ix) securities in foreign currency issued by non-residents which are assigned a credit rating of investment grade (BBB- or above by Standard & Poor's or an equivalent rating assigned by another credit rating agency) or above or are guaranteed by a financial institution of the same or a higher credit rating or a non-financial institution with a credit rating of upper-medium grade (A- or above by Standard & Poor's or an equivalent rating assigned by another credit rating agency); (x) securities denominated in foreign currency which are assigned a credit rating of investment grade or above by a credit rating agency designated by local financial regulators pursuant to Basel standards; (xi) permitted real estate located abroad; or (xii) other permitted foreign exchange transactions such as certain instrument of offshore payment, foreign currency deposits and discretionary asset management contract denominated in foreign currency; provided that, if certain foreign currency assets meet the above requirements at the time they were acquired by an insurance company, the insurance company may choose to continue to hold such foreign currency assets in the event that they subsequently fail to meet the above requirements as a result of a downgrade in the relevant credit ratings so long as such continuation is reviewed by an investment committee or a risk management committee of the insurance company pursuant to its internal policies.

Restrictions on Derivatives Trading

Insurance companies are permitted to trade derivatives under the general account if the notional amount is less than 3% (in the case of over-the-counter derivatives) or the margin deposit is 6% or less (in the case of exchange-traded derivatives) of their total assets. Insurance companies are also permitted to trade derivatives under the separate account if the notional amount is less than 3% (in the case of over-the-counter derivatives) or the margin deposit is 6% or less (in the case of exchange-traded derivatives) of the assets held under each separate account. Such trade restrictions do not apply if the derivatives trade is for hedging purposes or falls under the items (vii) through (x) set forth above under "— Restrictions on Foreign Exchange Transactions."

Prohibition on Transactions with Financial Institutions and Companies

Insurance companies are prohibited from engaging in certain transactions with other financial institutions and companies and may not exercise voting rights on any shares acquired through such prohibited transactions. Such prohibited transactions include (i) extending credit to or swapping voting shares with those of other financial institutions or companies in order to avoid the restrictions on the management of assets under the Insurance Business Act and (ii) swapping shares in order to avoid restrictions on acquisition of treasury shares under applicable laws.

Prohibition on Provision of Guarantees

Under the Insurance Business Act, insurance companies are generally prohibited from pledging its assets as a security or a guarantee for repayment of a third party's debt obligations, except for purchasing credit derivative-linked securities or credit-linked deposits or providing guarantees with respect to debt obligations of subsidiaries engaging in the insurance business overseas.

Internal Control

Board Composition

Under the Corporate Governance Act, an insurance company with total assets of not less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) as of the end of the latest fiscal year is required to have a board of directors consisting of at least three outside directors, who must constitute a majority (or a quarter in the case of an insurance company with total assets of less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) but not less than Won 300 billion) of the board of directors. The chairman of such board must be an outside director, failing which the insurance company must publicly disclose such fact and separately appoint a lead outside director. The board of directors must also establish an executive candidate recommendation committee, an audit committee, a risk management committee and a remuneration committee. The majority of the members of such committees must be composed of outside directors, and the chairman of each committee must be an outside director.

Audit Committee

Under the Corporate Governance Act, an insurance company with total assets of not less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) as of the end of the latest fiscal year is required to have an audit committee consisting of at least three directors, in which (i) outside directors make up not less than two thirds of the total members and (ii) at least one member is an expert in accounting or finance, such as a certified public accountant.

Risk Management Committee

Under the Corporate Governance Act, a risk management committee is required to review and adopt the following matters: (i) basic policies and strategies for risk management; (ii) level of risk to be taken by the insurance company; (iii) approval of adequate maximum investment volume and permitted loss; (iv) establishment and amendment of risk management standards; and (v) any other matters as prescribed by the FSC.

Internal Control Mechanism

For the purposes of compliance with applicable laws and regulations, sound management of its assets and protection of its policyholders, an insurance company is required to establish internal control procedures and standards in accordance with which its officers and employees are required to perform their duties.

Internal control standards of an insurance company are required to include information concerning the following: (i) a division of duties within, and the organizational structure of, the company; (ii) procedures to be duly observed by the company's officers and employees in performing their duties; (iii) duties to be performed by directors, officers and compliance officers for internal control; (iv) individuals and support groups specializing in internal control; (v) establishment of a system through which information necessary for decision making can be efficiently conveyed; (vi) procedures and methods by which the company may verify whether its officers and employees adhere to its internal control standards, and penalties on violation of such standards; (vii) procedures and standards employed by a company to prevent its officers and employees from engaging in unfair trade practices; (viii) procedures to be followed when establishing or modifying internal control standards; (ix) procedures for the appointment and removal of a compliance officer; (x) measures and procedures for managing conflicts of interest; (xi) a compliance manual relating to the contents and production of advertisements for insurance products and services; (xii) evaluation and management of requirements for concurrent office positions of officers and employees under the Corporate Governance Act; and (xiii) additional detailed standards as prescribed by the FSC.

In addition, an insurance company must establish a "risk management standard" which sets forth standards and procedures for recognizing, monitoring and controlling risks involved in management of its assets, performance of duties and entering into various transactions.

Compliance Officer and Risk Management Officer

An insurance company is required to designate at least one compliance officer to undertake to check compliance with internal control standards and investigate and report any violation to the audit committee. In addition, an insurance company must designate at least one risk management officer to monitor and manage risks arising out of management of its assets, performance of duties and entering into various transactions.

Each of the compliance officer and the risk management officer is required to perform his or her supervisory duties in good faith and may not undertake any tasks relating to the core function of the insurance business such as management of the company's assets or sale of its insurance products. In case an insurance company has total assets of not less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) as of the end of the latest fiscal year, its compliance officer and risk management officer may not in principle be the same person. Appointment of a compliance officer must be approved by a resolution of the board of directors and removal of such compliance officer requires two-thirds of the votes from the members of the board of directors.

Risk-Based Supervision of Insurance Companies

Pursuant to its authority under the Regulation on Supervision of Insurance Business and the Detailed Enforcement Regulations thereof, the FSS has developed a risk-based insurance supervision framework for insurance companies consisting of the following three pillars:

- *risk assessment and application system*, to assess the risk profiles and risk management systems of insurance companies;
- *risk-based capital adequacy requirements*, to require insurance companies to hold adequate capital to cover their risk exposures; and
- *risk-related disclosure requirements*, to strengthen market discipline by expanding public disclosure requirements for insurance companies regarding their risk profiles and risk management systems.

Risk Assessment and Application System ("RAAS")

All insurance companies operating in Korea are subject to periodic risk assessments by the FSS under RAAS. RAAS seeks to comprehensively and systematically assess an insurance company's risks and management weaknesses by evaluating the company's risk exposure, risk control and risk tolerance. Quantitative assessments under RAAS are conducted on a quarterly basis, while qualitative assessments are generally conducted on an annual basis.

The risk exposure of an insurance company is quantitatively assessed by measuring such company's exposure to six specified categories of risks, which consist of insurance risk, interest rate risk (including asset and liability management risk), investment risk (market risk and credit risk), liquidity risk and solvency margin risk, as well as such company's profitability level. The FSS uses 17 quantitative indicators to measure an insurance company's risk exposure across these six risk categories, while operational risk is separately assessed through application of qualitative factors only. Risk control is qualitatively assessed with a focus on the adequacy of an insurance company's risk management systems and internal controls. Risk tolerance is quantitatively assessed by measuring an insurance company's capital adequacy and earnings in order to evaluate its ability to absorb potential losses caused by failures to properly manage risk. An insurance company is given a rating between 1 (strong) and 5 (critically deficient) for each area of risk assessment, as well as an overall comprehensive risk grade ranging from 1 to 5.

If an insurance company receives a grade of 3 or higher for overall comprehensive risk but a rating of 4 or lower for its solvency margin risk or any two of its insurance risk, interest rate risk and investment risk, the FSS may recommend that such insurance company improve its management through, among other things, improvements in operation of organization and human resources, increases or decreases of capital and restrictions on launch of new businesses. For an insurance company that receives an overall comprehensive risk grade of 4 or lower, the FSS may direct such insurance company to implement management improvements through, among other things, branch closures, restrictions on branch openings, requests for executive management changes and partial suspensions of business. Regardless of the overall comprehensive risk grade of an insurer, the FSS also closely monitors on an ongoing basis any specific risk assessment category of such company that is rated 4 or lower in the prior quarterly or semi-annual RAAS assessment.

Risk-Based Capital Adequacy Requirements

Pursuant to the risk-based capital adequacy requirements implemented by the FSS, insurance companies are required to maintain a statutory ratio of available regulatory capital to risk-weighted assets of not less than 100%. Furthermore, the FSS had previously recommended that insurance companies maintain a risk-based capital adequacy ratio of not less than 150%, and its former administrative guidelines had required insurance companies failing to maintain such recommended 150% ratio to submit a capital increase plan. Although the FSS has since withdrawn such administrative guidelines, we believe that a risk-based capital adequacy ratio of not less than 150% is still generally followed in the Korean insurance industry. Risk-based capital adequacy requirements require insurance companies to hold adequate capital to cover their exposures to interest rate risk, market risk, credit risk and operational risk as well as insurance risk by reflecting such risks in their calculation of risk-weighted assets. For a description of each of these risks, see "Risk Management." The statutory risk-based capital adequacy ratio for insurance companies is computed by dividing available capital by required capital. Available capital of an insurance company is computed as the sum of, among other things, capital stock, reserve for policyholder dividends and bad debt allowance after deducting, among other things, deferred acquisition costs, goodwill, and prepaid expenses. Required capital is computed based on the sum of (i) the square root of the sum of the squares of (w) insurance risk amounts, (x) interest rate risk amounts, (y) credit risk amounts and (z) market risk amounts, and (ii) the operating risk amounts, with each risk amount being calculated in accordance with the detailed criteria set forth under Article 7-2 of the Regulation on Supervision of Insurance Business and Article 5-7-3 and Table 22 under the Enforcement Rules of the Regulation on Supervision of Insurance Business.

In addition, effective December 31, 2016, the FSS increased the confidence level applied in determining the credit risk amount for calculating the statutory risk-based capital adequacy ratio of insurance companies from 97% to 99% and required such statutory risk-based capital adequacy ratio to be calculated on a consolidated basis. The FSS has also announced that it plans to introduce a new regulatory solvency regime for insurance companies based on the ICS developed by the International Association of Insurance Supervisors, which would be similar in substance to the Solvency II Directive of the European Union, by 2018. The Solvency II Directive, which has been in effect in the European Union since January 1, 2016, is a comprehensive program of regulatory requirements for insurance companies, covering authorization, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency and reserving. Under the FSS' planned new solvency regime in Korea, among other things, insurance contract liabilities are expected to be measured based on market value, rather than book value, which would require a number of insurance companies in Korea with a large portfolio of high guaranteed rate of return products to obtain additional capital to meet their capital adequacy requirements. As an interim measure, the FSS also recently announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies, including increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation to 30 years (from the current maximum of 20 years), as well as reducing the coefficient applied in calculating interest rate risk from 1.85% to 1.50%, and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies, beginning in June 2017.

Disclosure Requirements

An insurance company is required to disclose the following information within three months of the closing of its books, provided that, any material relating to a quarterly period must be disclosed within two months:

- information relating to finances, profits and losses;
- information relating to financing and management of funds;
- information on corporate structure and personnel;

- management indexes relating to stability, profitability and productivity;
- information relating to risk management, including establishment and management of risk management standards under the Corporate Governance Act;
- any decision to modify accounting standards that may have a material effect; and
- any matter that may have a material effect on the company's related parties.

An insurance company is also required to disclose the details relating to any of the following immediately upon such occurrence:

- measures taken under Article 123(2) of the Insurance Business Act, such as the receipt of an order to increase capital or placing limits on holding of risky assets;
- measures taken under Article 131(1) of the Insurance Business Act to protect the interests of existing policyholders and the insured;
- measures taken under Article 134 of the Insurance Business Act due to an insurance company's failure to comply with the laws and regulations applicable to the insurance business;
- measures taken under Article 10 of the Act on the Structural Improvement of the Financial Industry (timely corrective measures taken by the FSC) or Article 14 of the Act on the Structural Improvement of the Financial Industry (administrative disposition by the FSC);
- information relating to insurance products, such as terms of insurance contracts, business operations manuals, insurance premiums, return premiums and schedule of basic rates;
- emergency measures taken against an insurance company by the FSC;
- occurrence of non-performing claims or financial scandals; and
- in case of non-listed insurance companies, matters which (i) have a material impact on the financial structure, management environment, assets and liabilities or claims and obligations of such company; or (ii) involve investment, shareholding relationship, profit and loss structure and other information which may have a material impact on such company's business management.

Restrictions under the Insurance Business Act Applicable to Affiliates and Subsidiaries

Under the Insurance Business Act, insurance companies are prohibited from engaging directly or indirectly in the following acts with any of its large shareholders (including specially related persons): (i) extending any credit for the purpose of assisting such shareholder in making an equity investment in another company; (ii) transferring any assets to such shareholder without receiving any consideration; or (iii) engaging in dealings or exchanges with, extending credit to, or receiving insurance premiums from or executing reinsurance contracts with, such shareholder on terms that are significantly disadvantageous to the insurance company. In addition, in order for an insurance company to extend credit to, or acquire bonds or shares issued by, any of its large shareholders in an amount exceeding the lesser of 0.1% of such company's equity capital and Won 1 billion, prior approval by a unanimous vote of such company's board of directors is required. When calculating such threshold amount, the amount of the shares issued by a large shareholder that the insurance company acquires through transactions on the KRX KOSPI Market, the KRX KOSDAQ Market or analogous stock market located outside of Korea may not be taken into consideration. Following the consummation of such transaction, the insurance company is required to immediately report the transaction to the FSC and publicly disclose it, including by publication on the company's website.

Insurance companies are prohibited from transferring to, purchasing from or exchanging with their subsidiaries any assets, or extending credit to their subsidiaries, on terms that substantially differ from the prevailing market standards. Insurance companies also may not extend credit that is secured by any shares owned by their subsidiaries, or extend credit in support of any investment made by their subsidiaries in other companies. Insurance companies are also generally prohibited from extending loans to officers or employees of their subsidiaries.

TAXATION

Korean Taxation

The following summary is based upon the tax laws of Korea as in effect on the date of this offering circular, and is subject to any change in the tax laws of Korea that may come into effect after such date. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Securities. Investors in the Securities are advised to consult their own tax advisers as to the tax consequences under the tax laws of Korea or any other consequences of the purchase, ownership and disposition of the Securities, including the effect of any national, state or local tax laws.

The following discussion only applies to non-resident individuals and non-Korean corporations ("Non-Residents") who do not have a permanent establishment in Korea and for whom the income of the Securities is not effectively connected with a Korean trade or business. Non-Residents that have a permanent establishment in Korea or for whom the income on the Securities is effectively connected with a Korean trade or business should consult their tax advisors with respect to an investment in the Securities.

Tax on Distributions

In principle, interest paid to a Non-Resident by a Korean company is subject to withholding of Korean income tax or corporation tax at the rate of 14% plus a tax surcharge at the rate of 10% (raising the total tax rate to 15.4%) unless reduced or exempted by relevant laws or tax treaties. However, the Special Tax Treatment Control Law of Korea (the "STTCL") exempts payments of interest on notes, such as Distributions paid on the Securities, denominated in a foreign currency (excluding payments to a Korean corporation or resident or a permanent establishment of a Non-Resident) from Korean income or corporation tax, provided that the offering of the Securities is deemed to be an overseas issuance under the STTCL.

Tax rates may be reduced or exempted by applicable tax treaties, conventions or agreements between Korea and the country of the recipient of the interest. The relevant tax treaties are summarized below.

Tax upon Redemption due to Gross-Up Event

It is not entirely clear under the Korean tax law whether the payment of the make whole amount by the Issuer in excess of the principal amount and any accrued but unpaid Distributions on such principal amount upon redemption of the Securities in case of a Gross-Up Event will be treated as interest, capital gains or possibly other income. Based on previous rulings from the Korean tax authorities, however, it is likely that such excess portion will be treated as interest, in which case the above discussion on tax on interest would be applicable. Please refer to "— Tax on Capital Gains" below for the tax consequences in case such excess portion will be classified as capital gains. If treated as other income, the excess portion will be subject to Korean withholding tax at the rate of 22% (including local income tax) unless exempt under an applicable Korean tax treaty. In the event such excess portion is subject to Korean withholding tax, the Issuer is obliged to pay additional amounts to ensure that, after the deduction or withholding of such withholding tax, the amount that would otherwise have been received by the Holder of the Securities in respect of the relevant payment in the absence of such deduction or withholding of such withholding tax is received by the Holder of the Securities, subject to certain exceptions as set out in Condition 7 of the "Terms and Conditions of the Securities."

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Securities to other Non-Residents (unless the sale is to the Non-Resident's permanent establishment in Korea). In addition, capital gains earned by Non-Residents from the transfer of the Securities taking place outside of Korea are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Securities are deemed to be an overseas issuance and foreign currency denominated under the STTCL.

Where a Non-Resident sells Securities in Korea or to the permanent establishment in Korea of a Non-Resident, in the absence of an applicable treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax is the lower of 11% (including local income tax) of the gross realization proceeds (the "Gross Realization Proceeds") or, subject to the production of satisfactory evidence of the acquisition cost and transferring expenses of the Securities, 22% (including local income tax) of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and direct cost related to the acquisition and transfer. Unless the seller can claim the benefit of an exemption of tax under an applicable treaty and in the absence of the seller producing satisfactory evidence of its acquisition cost and direct cost related to the acquisition and transfer in relation to the Korean securities being sold, the purchaser or any other designated withholding agents of the Securities, as applicable, must withhold an amount equal to 11% (including local income tax) of the Gross Realization Proceeds.

Any withheld tax must be paid no later than the tenth day of the month following the month in which the payment for the purchase of the Securities occurred. Failure to timely transmit the withheld tax to the Korean tax authorities technically subjects the purchaser or the withholding agent to penalties under Korean tax law.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least 183 days immediately prior to the death and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the tax rates vary from 10% to 50% according to the value of the relevant property and the identity of the persons involved.

Under Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned.

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

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders of the Securities in connection with the issue or transfer of the Securities as long as the relevant documents are executed outside of Korea. No securities transaction tax will be imposed on the transfer of the Securities.

Tax Treaties

As of the date of this offering circular, Korea has tax treaties with over 70 countries including, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, the People's Republic of China, 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 approximately 5% and 16.5% (including local income tax), and the tax on capital gains is often eliminated. Under the Korea-U.S. Tax Treaty, the rate of withholding tax on interest may not exceed 13.2% and capital gains generally may not be subject to tax. Each holder of the Securities should consult his or her own tax advisors as to whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Securities.

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

Proposed Financial Transaction Tax ("FTT")

The European Commission has published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has a broad scope and could, if introduced in its current form, apply to certain dealings in the Securities in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. However, the FTT proposal remains subject to negotiation between the participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Under the terms and subject to the conditions contained in a subscription agreement dated as of November 2, 2017 (the "Subscription Agreement") by and among us and J.P. Morgan Securities plc and Nomura Financial Investment (Korea) Co., Ltd. (collectively, the "Underwriters"), the Underwriters have agreed to purchase from us, and we have agreed to sell to the Underwriters, the aggregate principal amount of the Securities.

The Subscription Agreement provides that the obligation of the Underwriters to take and pay for the Securities is subject to the approval of certain legal matters by its counsel and certain other conditions. The Underwriters have agreed to take and pay for all of the Securities if any are taken. The Underwriters propose to offer the Securities initially at the price indicated on the cover page of this offering circular. After the offering, the offering price and other selling terms may be varied from time to time by the Underwriters. The Underwriters may offer and sell the Securities through certain of its affiliates and may provide to such affiliates an opportunity to purchase some of the Securities in the initial offering.

The Securities are a new issue of securities with no established trading market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. We have been advised that the Underwriters presently intend to make a market in the Securities, as permitted by applicable laws and regulations. The Underwriters are not obligated, however, to make a market in the Securities, and any such market-making may be discontinued at any time without prior notice at the sole discretion of the Underwriters. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Securities.

In connection with the offering of the Securities, the Underwriters have advised that they may purchase and sell Securities in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of Securities than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Securities while the offering is in progress. These activities by the Underwriters may stabilize, maintain or otherwise affect the market price of the Securities. As a result, the price of the Securities may be higher than the price that otherwise might exist in the open market.

The Underwriters and certain of their respective affiliates have in the past performed and may in the future perform certain investment banking, commercial/corporate banking and advisory services for us and/or our affiliates from time to time for which they have received or will receive customary fees and expenses and may, from time to time, engage in transactions with us and/or our affiliates in the ordinary course of business. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Underwriters, which may include transactions relating to our obligations under the Securities.

We have agreed to provide to the Underwriters certain customary fees or discounts for their services in connection with the offering of the Securities and to reimburse the Underwriters for certain out-of-pocket expenses.

Persons who purchase Securities from the Underwriters may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this offering circular.

The Subscription Agreement provides that we will indemnify and hold harmless the Underwriters against certain liabilities, including liabilities under the Securities Act. We have agreed not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Subscription Agreement, any non-Won denominated debt securities outside Korea of our company or our subsidiaries during the period from the date of the Subscription Agreement through and including the date 90 days after the date of the Subscription Agreement, without the prior written consent of the Underwriters.

The Underwriters or certain of their respective affiliates may purchase the Securities and be allocated Securities for asset management and/or proprietary purposes and not with a view to distribution.

The Underwriters or their respective affiliates may purchase the Securities and/or other securities of our company for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of our company or our subsidiaries or associates at the same time as the offer and sale of the Securities 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 the Securities to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities).

Selling Restrictions

United States of America

The Securities have not been and will not be registered under the Securities Act and may be offered or sold only outside the United States in offshore transactions in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this clause have the meanings given to them by Regulation S.

Each Underwriter has represented, warranted and agreed that neither it nor any of its affiliates, nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) in the United States in connection with any offer and sale of the Securities.

United Kingdom

Each Underwriter has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("FSMA") received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Underwriter has represented, warranted and agreed that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of any document, any Securities other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (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 Securities, 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 the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Underwriter has acknowledged that this offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, each Underwriter has represented, warranted and agreed that it has not offered or sold the Securities or caused the Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell the Securities or cause the Securities 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 Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

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

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

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

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Korea

Each Underwriter severally but not jointly has represented, warranted and agreed that the Securities have not been and will not be registered with the FSC under the FSCMA, as amended, and accordingly the Securities may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Act of Korea and the Enforcement Decree thereof) at the time of issuance of the Securities, except (i) if Article 2-2-2, Paragraph 2, Item 3 of the Regulation on the Issuance of Securities and Public Disclosure, etc. of Korea is applicable, the Securities may be offered, sold or delivered to Korean Qualified Institutional Investors as specified in Article 2-2, Paragraph 2, Item 4 of the above-mentioned regulation, provided that at least 80% of the aggregate principal amount of the Securities shall be allocated to non-residents of Korea (as such term is defined in the Foreign Exchange

Transaction Act of Korea and the Enforcement Decree thereof) (which applies only to the Securities acquired from the Issuer or any Underwriter at the time of issuance of the Securities), and the other requirements as set forth in Article 2-2-2, Paragraph 2, Item 3 above are satisfied, or (ii) as otherwise permitted by applicable Korean laws and regulations.

Each Underwriter severally but not jointly has undertaken to ensure that any securities dealer to which it sells Securities confirms that it is purchasing such Securities as principal and agrees with such Underwriter that it will comply with the restrictions described above.

Transfer Restrictions

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Securities offered pursuant to this offering circular.

Korea

A registration statement for the offering and sale of the Securities has not been filed under the FSCMA. Each purchaser of the Securities hereunder will be deemed to have represented, warranted and agreed as follows:

1. The Securities have not been and will not be registered with the FSC under the FSCMA, as amended. Accordingly, the Securities may not be offered, sold, delivered or transferred, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Act of Korea and the Enforcement Decree thereof) for a period of one year from the date of issuance of the Securities, except (i) in the case where, pursuant to Article 2-2-2, Paragraph 2, Item 3 of the Regulation on the Issuance of Securities and Public Disclosure, etc. of Korea, if the Securities are issued as straight bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, the Securities may be offered, sold, delivered or transferred to, between or among Korean Qualified Institutional Investors as specified in Article 2-2, Paragraph 2, Item 4 of the above-mentioned regulation, provided that all of the following requirements are satisfied: (1) the Securities shall be issued in a currency other than Won and the principal and interest thereof shall be paid in a currency other than Won, (2) at least 80% of the aggregate principal amount of the Securities shall be allocated to non-residents of Korea (as such term is defined in the Foreign Exchange Transaction Act of Korea and the Enforcement Decree thereof) (which applies only to the Securities acquired from the Issuer or any Underwriter at the time of issuance of the Securities), (3) the Securities shall be those listed on a major overseas securities market specified by the governor of the FSS, those registered with or reported to a foreign financial investment supervisory agency of the country in which the above securities market is established, or those for which any other procedure that may be deemed a public offering is completed, (4) measures shall be taken to state the condition that the Securities shall not be transferred to any Korean resident other than Korean Qualified Institutional Investors at the time of issuance or within one year from the date of issuance of the Securities on the face of such Securities (limited to the case where any physical instrument is issued), the underwriting agreement, subscription agreement and offering documents and (5) the Issuer and the manager(s) (limited to the case where any manager is appointed) shall take measures under foregoing items (1) through (4) and the Issuer and the manager(s) shall severally or jointly preserve evidential documents in relation thereto, or (ii) as otherwise permitted by applicable Korean laws and regulations.
2. it understands that the Securities will, unless otherwise agreed by us, bear a legend substantially to the following effect:

   THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF THE REPUBLIC OF KOREA (“KOREA”) UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA, AS AMENDED. ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD, DELIVERED

OR TRANSFERRED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY KOREAN RESIDENT (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA AND THE ENFORCEMENT DECREE THEREOF) FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE SECURITIES, EXCEPT (I) IF ARTICLE 2-2-2, PARAGRAPH 2, ITEM 3 OF THE REGULATION ON THE ISSUANCE OF SECURITIES AND PUBLIC DISCLOSURE, ETC. OF KOREA IS APPLICABLE, THE SECURITIES MAY BE OFFERED, SOLD, DELIVERED OR TRANSFERRED TO, BETWEEN OR AMONG KOREAN QUALIFIED INSTITUTIONAL INVESTORS AS SPECIFIED IN ARTICLE 2-2, PARAGRAPH 2, ITEM 4 OF THE ABOVE-MENTIONED REGULATION, PROVIDED THAT AT LEAST 80% OF THE AGGREGATE PRINCIPAL AMOUNT OF THE SECURITIES SHALL BE ALLOCATED TO NON-RESIDENTS OF KOREA (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION ACT OF KOREA AND THE ENFORCEMENT DECREE THEREOF) (WHICH APPLIES ONLY TO THE SECURITIES ACQUIRED FROM THE ISSUER OR ANY UNDERWRITER AT THE TIME OF ISSUANCE OF THE SECURITIES), AND THE OTHER REQUIREMENTS AS SET FORTH IN ARTICLE 2-2-2, PARAGRAPH 2, ITEM 3 ABOVE ARE SATISFIED, OR (II) AS OTHERWISE PERMITTED BY APPLICABLE KOREAN LAWS AND REGULATIONS.

United States

The Securities have not been and will not be registered under the Securities Act. The Securities may not be offered or sold to any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this section are defined in Regulation S.

Except in certain limited circumstances, interests in the Securities may only be held through interests in the Global Certificate. Such interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective direct and indirect participants. See "The Global Certificate."

Each purchaser of the Securities hereunder will be deemed to have represented, warranted and agreed as follows:

(1) the Securities have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(2) the purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Securities is, outside the United States at the time the buy order for the Securities is originated and continues to be located outside the United States, and the person, if any, for whose account or benefit the purchaser is acquiring the Securities reasonably believes that the purchaser is outside the Unites States, and neither the purchaser nor any person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the United States;

(3) the purchaser is aware of the restrictions on the offer and sale of the Securities pursuant to Regulation S described in this offering circular;

(4) any offer, sale, pledge or other transfer of the Securities made other than in compliance with the above-stated restrictions will not be recognized by us; and

(5) the Securities will bear legends to the following effect, unless we determine otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

"THE SECURITIES EVIDENCED HEREBY (THE "SECURITIES") OF HEUNGKUK LIFE INSURANCE CO., LTD. HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED."

LEGAL MATTERS

Certain legal matters relating to the Offering will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, our special English counsel, and for the Underwriters by Simpson Thacher & Bartlett LLP, their special U.S. counsel, and Herbert Smith Freehills LLP, their special English counsel. Certain legal matters relating to the Offering will be passed upon for us and the Underwriters by Shin & Kim, Korean counsel. Cleary Gottlieb Steen & Hamilton LLP, Simpson Thacher & Bartlett LLP and Herbert Smith Freehills LLP may rely as to all matters of Korean law on the opinion of Shin & Kim. Shin & Kim may rely as to all matters of English law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Herbert Smith Freehills LLP and U.S. federal law on Simpson Thacher & Bartlett LLP.

INDEPENDENT ACCOUNTANTS

Our annual consolidated financial statements as of and for the years ended December 31, 2014, 2015 and 2016 included in this offering circular have been audited by Deloitte Anjin LLC, independent auditors, as stated in its audit report appearing herein. With respect to our unaudited condensed consolidated interim financial statements as of and for the three and six months ended June 30, 2017 included herein, Samil PricewaterhouseCoopers, independent accountants, have reported that they applied limited procedures in accordance with professional standards for review of such information. However, their separate report dated August 14, 2017 appearing herein states that they did not audit and do not express an opinion on such unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of review procedures applied. With respect to our unaudited condensed consolidated interim financial statements for the six months ended June 30, 2016 included herein, Deloitte Anjin LLC, independent auditors, have reported that they applied limited procedures in accordance with professional standards for review of such information.

INDEX TO FINANCIAL STATEMENTS

Annual Consolidated Financial Statements of the Issuer

Unaudited Condensed Consolidated Interim Financial Statements of the Issuer

Deloitte.

Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 9, 2017

To the Shareholders and the Board of Directors of
Heungkuk Life Insurance Co., Ltd.:

We have audited the accompanying consolidated financial statements of Heungkuk Life Insurance Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, respectively, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, respectively and its financial performance and its cash flows for the year then ended 2016 and 2015, in accordance with K-IFRS.

Deloitte Anjin. LLC

March 9, 2017

Notice to Readers

This report is effective as of March 9, 2017, the auditors' report date. Certain subsequent events or circumstances, which may occur between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

Heungkuk Life Insurance Co., Ltd.
and Subsidiaries (the "Company" or "Group")

Consolidated Financial Statements
As of and for the Years Ended December 31, 2016 and 2015

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Kim, Ju Yoon
Chief Executive Officer
Heungkuk Life Insurance Co., Ltd.

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Account	Notes	December 31, 2016	December 31, 2015
Assets			
I. Cash and cash equivalents	6,28,44	343,588,829,239	491,194,849,025
II. Deposits	4,5,6,28,44	457,227,980,683	1,101,822,072,377
III. Securities	4,5,7,28,44,45	20,058,175,039,922	16,178,542,636,598
IV. Loans	4,5,9,28,44,45	8,740,416,782,738	8,226,679,251,548
V. Property and equipment	11,12	316,867,169,956	317,746,348,273
VI. Investment properties	11,12	627,427,270,903	626,195,415,860
VII. Intangible assets	12	117,490,253,894	121,154,728,104
VIII. Derivatives assets	4,5,10,28,44	23,628,004,063	20,558,270,454
IX. Current tax assets		67,439,166,760	53,541,877,016
X. Other financial assets	4,5,9,13	836,621,983,467	779,596,377,880
XI. Other assets	14	1,381,736,908,602	1,445,037,630,626
XII. Separate account assets	20,44	2,667,275,967,797	2,470,502,516,937
Total assets		35,637,895,358,024	31,832,571,974,698
Liabilities			
I. Insurance contract liabilities	15,16,17	29,400,735,642,694	25,837,363,832,673
II. Policyholders equity adjustments	18	67,217,339,913	89,579,170,522
III. Borrowings	4,5,19,28	485,582,158,187	500,762,072,425
IV. Deferred tax liabilities	38	145,241,421,829	149,505,097,170
V. Derivatives liabilities	4,5,10,28	249,065,174,487	173,332,650,674
VI. Net defined benefit liability	3,21	519,195,370	403,497,731
VII. Provisions	23	10,950,977,678	9,768,088,760
VIII. Other financial liabilities	4,5,22	352,478,015,908	396,402,713,123
IX. Other liabilities	24	352,471,860,434	385,635,074,924
X. Separate account liabilities	20	2,973,334,611,578	2,760,060,216,873
Total liabilities		34,037,596,398,078	30,302,812,414,875
Equity			
I. Capital stock	1,25	67,916,845,000	67,916,845,000
II. Other pain-in capital	25	98,419,078,039	98,438,042,061
III. Other components of equity	26	422,140,296,765	403,447,942,563
IV. Retained earnings	27	826,430,696,472	781,183,117,501
V. Non-controlling interests		185,392,043,670	178,773,612,698
Total equity		1,600,298,959,946	1,529,759,559,823
Total liabilities and equity		35,637,895,358,024	31,832,571,974,698

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016, and 2015

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Accounts	Notes	2016	2015
I. Operating revenues		10,187,309,237,454	10,049,426,536,512
1. Premium revenues	29	7,993,397,067,489	7,981,362,981,391
2. Reinsurance revenues	30	620,944,074,785	590,770,975,874
3. Interest income	28	907,800,917,001	839,241,977,756
4. Compensation income		—	169,810,834
5. Gains on valuation and sale of securities	28	50,022,905,990	88,226,845,638
6. Gains on valuation and sale of loans	28	10,851,845,244	3,757,843,100
7. Gains on foreign currency transaction and translation	28	193,632,379,809	179,080,622,953
8. Gains on derivatives transaction and valuation	10,28	69,371,891,236	35,585,225,308
9. Other operating income	31	148,402,834,856	139,630,891,082
10. Separate account commissions received		136,138,334,599	145,105,684,063
11. Separate account income	20	56,746,986,445	46,493,678,513
II. Operating expenses		10,118,332,227,662	9,917,171,916,562
1. Provision for insurance contract liabilities	15	3,568,981,315,704	3,948,891,348,269
2. Claims paid	32	4,180,189,985,213	3,683,924,888,631
3. Reinsurance expenses	30	602,959,265,462	588,399,381,394
4. Interest expenses	28	32,753,453,344	33,818,629,134
5. Compensation loss		503,449,138	—
6. Business expenses	21,34	614,987,079,627	561,621,008,740
7. Amortization of deferred acquisition costs	14,34	603,639,897,305	609,981,567,805
8. Claim adjustment expenses	35	56,588,789,480	54,480,512,467
9. Investment administrative expenses	21,36	50,303,957,291	42,143,119,035
10. Losses on valuation and sale of securities	28	22,611,884,942	27,477,094,562
11. Losses on valuation and disposal of loans	28	10,619,286,781	6,331,160,291
12. Losses on foreign currency transaction and translation	28	45,540,582,289	12,530,201,064
13. Losses on derivatives transaction and valuation	10,28	211,562,174,481	190,230,353,475
14. Other operating expenses	37	28,774,648,962	37,527,007,773
15. Separate account commissions paid		31,569,471,198	73,321,965,409
16. Separate account expenses	20	56,746,986,445	46,493,678,513
III. Operating income		68,977,009,792	132,254,619,950
IV. Non-operating income	40	9,874,704,739	13,078,715,184
V. Non-operating expenses	40	18,944,836,322	13,977,165,281
VI. Income before income tax expenses		59,906,878,209	131,356,169,853
VII. Income taxes expenses	38	(8,426,719,731)	24,840,806,746
VIII. Net income		68,333,597,940	106,515,363,107
IX. Other comprehensive income		12,412,292,955	44,913,164,114
<Items not reclassified subsequently to profit or loss>			
1. Revaluation surplus		806,597,097	959,894,466
2. Remeasurement of defined benefit liabilities		(37,990,572)	186,335,382

Accounts	Notes	2016	2015
<Items reclassified subsequently to profit or loss>			
1. Losses on valuation of available-for-sale financial assets		(120,583,229,595)	(177,082,880,719)
2. Gains on valuation of held-to-maturity financial assets		123,678,190,213	224,152,120,581
3. Gains (losses) on valuation of derivatives		16,947,006,416	(3,857,505,154)
4. Separate account accumulated other comprehensive income		(8,398,280,604)	555,199,558
X. Total comprehensive income		80,745,890,895	151,428,527,221
XI. Net income attributable to:		68,333,597,940	106,515,363,107
Owner of parent company		55,435,105,721	98,706,277,247
Non-controlling interest		12,898,492,219	7,809,085,860
XII. Total comprehensive income attributable to:		80,745,890,895	151,428,527,221
Owner of parent company		74,127,459,923	133,327,848,161
Non-controlling interest		6,618,430,972	18,100,679,060
XIII. Earning per share	39	4,081 won	7,267 won

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

Heungkuk Life Insurance Co., Ltd. and Subsidiaries

(In Korean won)

Account	Capital stock	Other paid-in capital: Paid-in capital in excess of par value	Other paid-in capital: Other capital surplus	Other components of equity	Retained earnings	Owner of the parent company	Non-controlling interests	Total
Balance at January 1, 2015	67,916,845,000	80,429,306,685	10,974,273,506	368,826,371,649	682,476,840,254	1,210,623,637,094	179,981,384,251	1,390,605,021,345
Net income	—	—	—		98,706,277,247	98,706,277,247	7,809,085,860	106,515,363,107
Losses on valuation of available-for-sale financial assets	—	—	—	(155,656,166,503)	—	(155,656,166,503)	(21,426,714,216)	(177,082,880,719)
Gains on valuation of held- to-maturity financial assets	—	—	—	192,269,925,324	—	192,269,925,324	31,882,195,257	224,152,120,581
Losses on valuation of derivatives	—	—	—	(3,667,461,316)	—	(3,667,461,316)	(190,043,838)	(3,857,505,154)
Separate account accumulated other comprehensive income	—	—	—	555,199,558	—	555,199,558	—	555,199,558
Revaluation surplus	—	—	—	959,894,466	—	959,894,466	—	959,894,466
Remeasurement of defined benefit liabilities	—	—	—	160,179,385	—	160,179,385	26,155,997	186,335,382
Additional acquisition of subsidiaries	—	—	7,034,461,870	—	—	7,034,461,870	(19,308,450,613)	(12,273,988,743)
Balance at December 31, 2015	67,916,845,000	80,429,306,685	18,008,735,376	403,447,942,563	781,183,117,501	1,350,985,947,125	178,773,612,698	1,529,759,559,823
Balance at January 1, 2016	67,916,845,000	80,429,306,685	18,008,735,376	403,447,942,563	781,183,117,501	1,350,985,947,125	178,773,612,698	1,529,759,559,823
Net income	—	—	—	—	55,435,105,721	55,435,105,721	12,898,492,219	68,333,597,940
Dividends paid	—	—	—	—	(10,187,526,750)	(10,187,526,750)	—	(10,187,526,750)
Losses on valuation of available-for-sale financial assets	—	—	—	(100,317,835,985)	—	(100,317,835,985)	(20,265,393,610)	(120,583,229,595)
Gains on valuation of held to maturity financial assets	—	—	—	111,078,251,605	—	111,078,251,605	12,599,938,608	123,678,190,213
Gains on valuation of derivatives	—	—	—	15,519,958,237	—	15,519,958,237	1,427,048,179	16,947,006,416
Separate account accumulated other comprehensive income	—	—	—	(8,398,280,604)	—	(8,398,280,604)	—	(8,398,280,604)
Revaluation surplus	—	—	—	806,597,097	—	806,597,097	—	806,597,097
Remeasurement of defined benefit liabilities	—	—	—	3,663,852	—	3,663,852	(41,654,424)	(37,990,572)
Others	—	—	(18,964,022)	—	—	(18,964,022)	—	(18,964,022)
Balance at December 31, 2016	67,916,845,000	80,429,306,685	17,989,771,354	422,140,296,765	826,430,696,472	1,414,906,916,276	185,392,043,670	1,600,298,959,946

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016, and 2015

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Account	2016	2015
I. Cash flows from operating activities	4,140,845,868,391	3,285,238,835,878
Net income	68,333,597,940	106,515,363,107
Adjustments (Note 43)	3,176,651,526,010	3,703,405,988,448
Changes in assets and liabilities from operating activities (Note 43)	(19,205,487,645)	(1,372,888,437,492)
Interest received	851,521,755,034	830,749,611,418
Interest paid	(28,193,712,072)	(28,531,245,832)
Dividends received	110,201,596,837	81,645,914,916
Payments of income taxes	(18,463,407,713)	(35,658,358,687)
II. Cash flows from investing activities	(4,254,693,831,966)	(3,195,260,299,504)
Proceeds from sales of available-for-sale financial assets	2,875,887,750,902	2,672,905,603,214
Redemption of HTM financial assets	547,482,366,374	490,610,253,510
Proceeds from sales of investments in subsidiaries	7,009,284,751	—
Change in derivatives assets (liabilities)	(45,921,765,861)	(22,756,355,253)
Disposition of investment properties and property and equipment	235,795,155	308,766,929
Disposition of intangible assets	208,518,972	454,430,000
Decrease in deposits	16,731,489,020	13,665,464,544
Acquisition of available-for-sale financial assets	(5,480,471,595,161)	(4,456,974,519,949)
Acquisition of held-to-maturity financial assets	(2,129,547,702,859)	(1,844,965,828,323)
Acquisition of investments in subsidiaries	(7,000,000,000)	—
Acquisition of investment properties and property and equipment	(20,094,829,936)	(25,631,859,079)
Acquisition of intangible assets	(8,638,066,318)	(7,938,885,684)
Increase in deposits	(9,983,937,005)	(14,359,524,413)
Restoration expenditure	(591,140,000)	(577,845,000)
III. Cash flows from financing activities	(33,758,056,282)	27,944,081,825
Issuance of bonds	65,000,000,000	50,000,000,000
Increase in borrowings	80,000,000,000	—
Paid in bonds	(60,000,000,000)	—
Paid in borrowings	(100,000,000,000)	—
Additional acquisition of investments in subsidiaries	—	(12,261,127,500)
Dividends paid	(10,187,526,750)	—
Decrease in non-controlling interests	(8,570,529,532)	(9,794,790,675)
IV. Increase (decrease) in cash and cash equivalents (I + II + III)	(147,606,019,857)	117,922,618,199
V. Cash and cash equivalents at the beginning	491,194,849,025	373,272,230,826
VI. Effect of foreign exchange rates changes on cash and cash equivalents	71	—
VII. Cash and cash equivalents at the ending	343,588,829,239	491,194,849,025

See accompanying notes to consolidated financial statements

1. GENERAL

Heungkuk Life Insurance Co., Ltd. ("the Company" or "the Group"), a controlling company under the Korean International Financial Reporting Standards ("K-IFRS") No.1110, was incorporated on May 21, 1950. The Group has 6 regional offices and 115 branches as at December 31, 2016, which are mainly engaged in personal insurance and related reinsurance contracts. Meanwhile, the headquarter of the Company is located in Saemunan-ro 68, Jongno-gu, Seoul.

As of December 31, 2016, insurance products that are on sale and insurance products for which new sales have been discontinued but contracts are maintained are as follows:

I. Life insurance segment

	Products		
Description	Available	Discontinued	Total
Individual annuity insurance	4	21	25
General annuity insurance	8	70	78
Other endowment insurance	16	8	24
Term insurance	17	239	256
Mixed insurance	4	61	65
Group insurance	6	13	19
Total	55	412	467

II. Non-life insurance segment

	Products		
Description	Available	Discontinued	Total
Annuity saving insurance	2	39	41
Individual annuity insurance	—	12	12
Long-term non-life insurance	44	753	797
Fire insurance	4	—	4
Marine insurance	24	—	24
Casualty insurance	172	1	173
Automobile insurance	11	—	11
Total	257	805	1,062

As of December 31, 2016, the paid-in capital of the Company is KRW 67,917 million won, and the major shareholders are as follows:

Name of shareholder	Number of shares	Ownership
Lee, Ho Jin	7,647,981 share	56.31%
Lee, Won Jun	1,990,189 share	14.65%
Daehan Synthetic Fiber Co., Ltd.	1,416,646 share	10.43%
Ilju Academy and Culture Foundation	638,342 share	4.70%
Lee, Dong Jun	500,000 share	3.68%
Lee, Tae Jun	500,000 share	3.68%
Korea Book Promotions Co., Ltd.	395,147 share	2.91%
Lee, Jung A	247,532 share	1.82%
Lee, Sung A	247,532 share	1.82%
Total	13,583,369 share	100.00%

2. Significant Accounting Policies

(1) Basis of Preparation

The Company and its subsidiaries (the "Group") have prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRS").

The consolidated financial statements for the year ended December 31, 2016 are approved by the board of directors on March 8, 2017 and finalized at the shareholders' meeting on March 28, 2017.

The principal accounting policies are set out below. Except for the effect of the Amendments to K-IFRSs and new interpretations set out below, the principal accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2016 are consistent with the accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2015.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year

Amendments to K-IFRS 1110 - Consolidated Financial Statements & K-IFRS 1112 Disclosure of interests in other entities & K-IFRS 1028 Investment in associates

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1111 - Accounting for Acquisitions of Interests in Joint Operations

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1001 - Disclosure Initiative

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1016 - Property, Plant and Equipment

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1038 - Intangible Assets

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, which the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Amendments to K-IFRS 1016 - Property, Plant and Equipment & K-IFRS 1041 Agriculture: Bearer Plants

The amendments to K-IFRS 1016 'Property, Plant and Equipment' and K-IFRS 1041 'Agriculture' define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with K-IFRS 1016, instead of K-IFRS 1041. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

Annual Improvements to K-IFRS 2012-2014 Cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa); such a change is considered as a continuation of the original plan of disposal, and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107 Financial Instruments: Disclosures, K-IFRS 1019 Employee Benefits, and K-IFRS 1034 Interim Financial Reporting. The application of these amendments has no material impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

2) New and revised K-IFRSs in issue, but not yet effective

Amendments to K-IFRS 1109 - Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018

Korean IFRS 1109 Financial instruments was issued on September 25, 2015, and is effective for annual periods beginning on or after January 1, 2018. However, the Company plans to choose an optional temporary exemption from Korean IFRS 1109 as the Company's activities are predominantly connected with insurance. When the temporary exemption is permitted, the Company will defer the application of Korean IFRS 1109 until 2020. On September 13, 2016, the International Accounting Standards Board (IASB) published an amendment to IFRS 4, and the Korea Accounting Institute (KAI) is processing with the amendment to Korean IFRS 1104 Insurance contracts. The Company's activities are predominantly connected with insurance, and the portion of the total carrying amount of its liabilities related with insurance excesses 90 percent of the total carrying amount of its total liabilities as at December 31, 2015. These satisfy the requirements for applying the optional temporary exemption from applying Korean IFRS 1109. The Company expects Korean IFRS 1109 will be effective for annual periods beginning on or after January 1, 2021.

Amendments to K-IFRS 1115 - Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduces a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and, 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018- Revenue, K-IFRS 2113 - Customer Loyalty Programs, K-IFRS 2115-Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers, and K-IFRS 2031-Revenue-Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018.

Since the Company recognizes its major profits in accordance with K-IFRS 1104 'Insurance contracts', it has no significant effect on the financial statements due to the amendment of K-1115.

Amendments to K-IFRS 1102 - Share-based Payment

The amendments include: 1) when measuring the fair value of share-based payment, the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment should be consistent with the measurement of equity-settled share-based payment, 2) Share-based payment transaction in which the Group settles the share-based payment arrangement net by withholding a specified portion of the equity instruments per statutory tax withholding requirements would be classified as equity-settled in its entirety, if otherwise would be classified as equity-settled without the net settlement feature, and 3) when a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions, the original liability recognized is derecognized and the equity-settled share-based payment is recognized at the modification date fair value. Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1007 - Statement of Cash Flows

The amendments require that changes in liabilities arising from financial activities are disclosed. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to K-IFRS 1012 - Income Taxes

The amendments clarify that unrealized losses on fixed-rate debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the holder expects to recover the carrying amount of the debt instrument by sale or by use and that the estimate of probable future taxable profit may include the recovery of some of assets for more than their carrying amount. When the Group assesses whether there will be sufficient taxable profit, the Group should compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

The Group is currently reviewing the effect of the amendments to the financial statements.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns. The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

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 transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumedare recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS1105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer’s previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer’s previously held interest in the acquiree (if any); the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement, or K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 Impairment of Assets by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 Impairment of Assets to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(6) Goodwill

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill resulting from the acquisition of an associate is described at Note 2. (4).

(7) Revenue recognition

1) Insurance Premiums

Insurance premiums received in advance are deferred as unearned revenue at the time of receipt. As the contract matures, a proportionate share of the insurance premium is recognized as revenue over the coverage period. Overdue insurance premiums are not recognized at the end of the reporting period.

2) Dividend income and Interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably). Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that of the asset's net carrying amount on initial recognition.

(8) Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss ("FVTPL") are recognized immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity ("HTM") financial assets, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies,

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

3) HTM financial assets

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM financial assets. HTM financial assets are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as investments revaluation reserve). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset, or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(9) Financial Liabilities and Equity Instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancelation of the Company's own equity instruments.

3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

5) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

6) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(A) the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets; and

(B) the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue

7) Derecognition of financial liabilities

The Group derecognize financial liabilities when the Group 's obligation are discharged, canceled or they expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(10) Loans and Receivables

Impairment loss of loans and receivables is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted using the initial effective interest rate. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method. The Group determines allowance for losses on loans receivable and other receivables through impairment testing. The estimates of provision of credit losses are determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowance on individual loans and collectively assessing allowances for groups of loans

1) Specific assessment of allowance

Specific assessment of allowance is based on the management's best estimation about present value of cash flow which is expected to withdraw from the target of evaluation bond. When estimating the cash flow, it is required to consider all available information, such as the other party's financial situation, operational cash flow and net present value of related collateral.

2) Collective assessment of allowance

Collective assessment of allowance is deducted from the estimation model, which is based on the past empirical loss rate to estimate the inherent loss in the portfolio. That model is using probability of default (PD) of each asset and loss given default of collateral by considering adverse factors, such as a type of merchandise and the owner, credit rating, the size of portfolio, and a payback period. Also, a regular assumption is used to model the estimation of inherent loss and to determine the entry variable, which is based on the past experience and present situation. The method and assumption of that model is regularly reviewed to decrease the difference between estimation of allowance and the real loss.

(11) Derivative Financial Instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps (IRS) and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognized as a financial asset, and a derivative with a negative fair value is recognized as a financial liability.

1) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and economic characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(12) Fair Value

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these [consolidated] financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1017 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in K-IFRS 1002 Inventories or value in use in K-IFRS 1036 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(Level 1) inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

(Level 2) inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

(Level 3) Inputs are unobservable inputs for the asset or liability.

(13) Property and Equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the below method based on the estimated useful lives of the assets as follows. Other property and equipment composed of paintings, writings and others are not depreciated.

Description	Useful lives	Depreciation
Buildings	20 ~ 60	Straight line method
Structures	40	Straight line method
Vehicles, office equipment, and rental store facilities	4 or 5	Declining balance method

If each part of an item of property and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(14) Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 20 ~ 60 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized

(15) Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

(16) Impairment of Fixed and Intangible Assets other than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its fixed and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(17) Foreign Currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Korean Won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2 (11) below for hedging accounting policies);

(18) Retirement benefit costs and termination benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(19) Acquisition Costs

Acquisition costs arising from long-term insurance contracts are deferred and amortized over the contract period or seven years, whichever is shorter. Acquisition costs arising from short-term insurance contracts whose contract period is shorter than one year are expensed in the current period. In case the actual expenditure is larger than the estimated amount, only the estimated amount is capitalized and the remainder is expensed in the current period. If additional premium ratio is relatively high in the beginning of the period for early recovery of the acquisition costs, the actual acquisition costs are expensed in the current period. When the period of premium payments is longer than seven years, the amortization period of deferred acquisition costs is seven years. When the contract is canceled, any unamortized portion as of the cancelation date (or the date it becomes invalid in case the contract becomes ineffective before cancelation date) is fully amortized in the fiscal year in which such cancelation occurs.

(20) Classification of Insurance Contracts and Investment Contracts

The Group estimated reserves for future expense, such as premium, reserve for outstanding claims, reserve for policyholders' dividend and others, for insurance contract and investment contract, which has discretionary participation feature (or without). The estimated reserve is based on insurance term, premium, calculation method of insurance contract liabilities, the Insurance Business Act, K-IFRS 1104 and 1039 and other related regulations. The principal contents are as follows:

1) Classification of contracts

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) that adversely affects the policyholder occurs is classified as insurance contract. A contract that does not expose the insurer to significant insurance risk but exposes it to financial risk is classified as investment contract.

① Insurance contract

The significance of insurance risk is assessed on a contract-by-contract basis, by calculating the percentage of benefits with the amounts when the insured events have not occurred for additional benefits. The additional benefits refer to amounts that exceed those that would be payable if no insured event occurred. In case significance of insurance risk (proportion of the additional benefits) is higher than 10 %(5% for contracts before April 1, 2013), the Company classifies the contracts as insurance contracts for which insurance risk is considered significant. If a contract is classified as an insurance contract at the initial recognition, the contract remain as an insurance contract until all the rights and obligations are extinguished or expired. Even if the insurance risk becomes not-significant during the term of the contract, the contract will not be reclassified as an investment contracts.

② Investment contract

A contract that does not expose the insurer to significant insurance risk, but exposes it to financial risk, is classified as an investment contract. Financial risk means the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Investment contracts containing discretionary participation features are accounted for as insurance contract in accordance with K-IFRS 1104. Insurance Contracts, and investment contracts without discretionary participation features are accounted for as financial instruments in accordance with K-IFRS 1039.

2) Unbundling of deposit components

The deposit component of an insurance contract is unbundled when both the following conditions are met:

- the insurer can measure the deposit component (including any embedded surrender options) separately (i.e., without considering the insurance component); and
- The insurer's accounting policies do not otherwise require it to recognize all obligations and rights arising from the deposit component.

Unbundling is permitted, but not required, if the insurer can measure the deposit component separately, but its accounting policies require it to recognize all obligations and rights arising from the deposit component, regardless of the basis used to measure those rights and obligations. Unbundling is prohibited if an insurer cannot measure the deposit component, separately.

The Group has not recognized an unbundled deposit component, unless it has to be separated. To unbundle a contract, the Company applies K-IFRS 1104 to the insurance component and K-IFRS 1039 to the deposit component

3) Discretionary participation features

Certain insurance and investment contracts include discretionary participation features. Discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- that is likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that is contractually based on:
  - (A) the performance of a specified pool of contracts or a specified type of contract;
  - (B) realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - (C) the profit or loss of the Company and subsidiaries, fund or other entity that issues the contract.

Some insurance contracts contain a discretionary participation feature as well as a guaranteed element. The issuer of such a contract may, but need not, recognize the guaranteed element separately from the discretionary participation feature. The Company does not recognize them separately, but classifies the whole contract as a liability. The changes in the liability are recognized in profit or loss.

4) Embedded derivatives contained in insurance contract

The Group does not separate and measure the embedded derivatives if an embedded derivative is itself an insurance contract or there is a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate). Otherwise, the Company separates the embedded derivatives from their host contract and measures them at fair value and includes changes in their fair value in profit or loss.

(21) Reinsurance Assets

The Group concludes reinsurance agreements with reinsurance companies to transfer insurance risk arising from direct insurance contracts to them. The Group does not offset reinsurance assets against the related insurance liabilities and income or expense from reinsurance contracts against the expense or income from the related insurance contracts. The Group considers whether its reinsurance assets are impaired at the end of each reporting period. If a cedant's reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognize that impairment loss in profit or loss.

A reinsurance asset is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

(22) Insurance Contract Liabilities

The Group estimated reserves for future expense, such as premium, reserve for outstanding claims, reserve for policyholders' dividend and others, for insurance contract and investment contract, which has discretionary participation feature (or without). The estimated reserve is based on insurance term, premium, calculation method of insurance contract liabilities, Insurance Business Act, K-IFRS 1104 and K-IFRS 1039 and other related regulations. The principal contents are as follows:

1) Premium reserve

Premium reserve is a provision for expected insurance claims and related expenses to be paid based on the net premium method. Premium reserve is the amount accounted for using the standard interest rates and standard risk rates announced by the Financial Supervisory Services or the amount accounted for using the base rates applied on the date of computation of premium, whichever is larger. On the other hand, premium reserves are recorded as "zero (0)" if it is less than zero, and additional reserves required based on liability adequacy test performed in accordance with the K-IFRS 1104 are included in the premium reserves.

2) Reserve for outstanding claims

Reserve for outstanding claims is a provision for claims incurred, but not yet paid, and for claims not incurred and, therefore, not yet settled, whose insured events have occurred prior to the end of the reporting period.

① Insurance contract

Individually estimated amounts to be incurred in dispute or in litigation pertaining to policies whose events for payment of claims and others have arisen as of the end of each fiscal year. In case part of the insurance claims was paid, the remaining balance is to be reserved

② IBNR, Incurred But Not Reported

Calculated as a certain percentage of the accumulated risk premium revenue for the last 12 months, ending at year-end of each fiscal period.

③ Reserve for elapsed contracts

Reserve for insurance contracts lapsed due to delay in premium payment, but still within the grace period providing reinstatement or retention right.

④ Insurance claims payable

Unpaid insurance claims, which were settled to be paid for insurance claims, cancelation refund, dividend and others.

Meanwhile, the Company reserves IBNR by the statistical method based on experience. IBNR is computed by subtracting the individual reserve estimate as of December 31, 2015, from the estimate of the total incurred claims amount, which has been projected in accordance with the chain ladder method based on the historical data of the paid claims for the last five years.

3) Reserve for unearned premium

Reserve for unearned premium refers to the premiums to be charged during subsequent periods, out of premiums whose payment dates have matured before the end of the reporting period. It is calculated according to the guideline for calculation of premium and policy reserve. Furthermore, the Company carries out the liability adequacy test based on K-IFRS 1104. If it is less, the Company increases the carrying amount of the relevant insurance liabilities.

4) Reserve for minimum guaranteed benefit

Reserve for minimum guarantee refers to amounts that are to guarantee a certain level of insurance. It is calculated by considering the future loss, according to the guideline for reserve for minimum guaranteed benefit. Furthermore, the Company carries out the liability adequacy test based on K-IFRS 1104. If it is less, the Company increases the carrying amount of the relevant insurance liabilities.

5) Reserve for participating policyholder’s dividends and Excess participating policyholder dividend reserve

The Group sells dividend insurance contracts and accounts for reserve for policyholders’ dividends and reserve for policyholders’ profit dividend with respect to the dividend. Policyholders’ dividends schemes by the Article 6-13 of the Supervisory Regulation on Insurance Industry are equivalent to discretionary participation features.

① Reserve for participating policyholder’s dividends

In compliance with the Supervisory Regulation, the Company provides reserve for excess crediting rate, reserve for mortality gain dividend, reserve for interest dividend, and reserve for operating expense dividend, reserve for long-term maintenance dividend and revaluation dividend reserve for the purpose of provisioning for reserve for policyholders’ dividends.

Reserve for policyholder’s dividends equals the incurred reserve for policyholders’ dividends added to reserve for policyholders’ dividends for the subsequent year.

The incurred reserve for policyholders’ dividends refers to the amount, which was settled but unpaid at the end of the reporting period. Reserve for policyholders’ dividends for the subsequent year refers to an estimate of policyholders’ dividends for valid insurance contracts at the end of the reporting period calculated based on the estimated contract lapse rate.

② Reserve for policyholders’ profit dividend

In accordance with the Supervisory Regulation on “Disposition of Surplus before Policyholders’ Dividend Reserve,” the Group initially accumulates reserve for losses on dividend insurance contracts and reserve for policyholders’ dividend as expected, and reserve for policyholders’ dividends for subsequent year from policyholders’ equity. The balance is then allocated to reserve for policyholders’ profit dividend. The policyholders’ dividends not accruing on reserve for policyholders’ dividends, newly accumulated at the end of the previous fiscal year, are added to reserve for policyholders’ profit dividend accumulated at gross value.

The policyholders’ dividend resulting in excess of reserve for policyholders’ dividends, newly accumulated at the end of the previous fiscal year, is deducted from the reserve for policyholders’ profit dividend accumulated at gross value prior to the current fiscal year end. The Group is required to appropriate reserve for policyholders’ profit dividend, accumulated at gross value for its source of policyholders’ dividend for individual policyholders, within five years from the end of the related fiscal year.

6) Reinsurance reserve

For reinsurance assumed, the Group recognizes all insurance contract liabilities that are not recognized by the counterparty as a reserve for reinsurance premiums.

(23) Policyholders' Equity Adjustment

At the end of the reporting period, gains (losses) on valuation of investments in associates and AFS financial assets; and revaluation surplus on property and equipment (excluding amounts recognized in the statement of comprehensive income) that are subject to fair value measurement are classified into interest attributable to policyholders and interest attributable to shareholders based on a proportion ratio of average insurance contract liabilities of participating insurance and non-participating insurance for the fiscal year. Interest attributable to policyholders is included in the policyholder's equity adjustment.

(24) Separate Account Assets and Liabilities

In order to secure soundness of asset management and recoverability, the Company manages special accounts separately from general accounts in accordance with the Regulation on Insurance Supervision. Assets and liabilities separately administered from the general accounts in the asset management and income distribution are deemed assets and liabilities in segment reporting. These accounts are presented as separate account assets and liabilities in the separate statements of financial position. The Group receives the fees for operation and management of the separate accounts and accounts for them as fees and commissions from separate accounts. In accordance with the Supervisory Regulation, separate accounts are presented as an independent account distinctively from general accounts.

In connection with the retirement insurance among the separate accounts, the Group manages variable interest type and fixed-interest type.

In case of operating loss from special accounts, the Group appropriates deficiency by charging it first to reserve for policyholders' profit dividend reserved in separate account and remaining loss is charged to shareholders' equity. Additionally, the Company reverts 10% of the retained earnings from special accounts to shareholders' equity and 90% to policyholders' equity.

In addition, general accounts receivable (payables) from (to) separate accounts are presented in separate accounts' debits (credits), in case there is a fund transfer between general accounts and separate accounts.

(25) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize 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.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(26) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Main source of estimation uncertainty

Within the next fiscal year, for the carrying amounts of assets and liabilities that can lead to significant modifications and have significant risk factors at the end of the reporting period, the key assumptions concerning the future and other key sources of estimation uncertainty are as follows:

1) Defined benefit retirement plans

The Group operates a defined benefit retirement plan for its employees. Defined benefit obligations are calculated based on actuarial valuation method at the end of each reporting period. To apply actuarial valuation method, it requires to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs). Due to the uncertainty of the assumptions used, the amount of defined benefit retirement plans could be materially different from actual incurred payment in future periods.

As of December 31, 2016, the defined benefit obligation is KRW 519 million (2015: KRW 403 million) and the details are disclosed in Note 21.

2) HTM financial assets

Management reviewed the HTM financial assets in terms of the Group's capital maintenance and liquidity requirements and has confirmed that the Group has the positive intent and ability to hold these assets until maturity. The carrying amount of the HTM financial assets is KRW 9,180,485 million. The details of HTM financial assets are described in Note 7.

3) Fair valuation of financial assets

As described in Note 4, the Group uses a valuation technique based on assumptions that are not supported by prices form observable current market to estimate fair value of specific financial assets. Management believes the valuation technique and assumptions that are used to determine fair value of financial assets are appropriate

4) Allowance for doubtful accounts

Impairment losses on loans and receivables are calculated using the difference between the asset's book value and the estimated future cash flow (except for future impairment losses) discounted by the initial effective rate. For that, it is required to review individually whether there is objective evidence of potentials about the individually significant financial assets for the non-consolidation entity (specific assessment of allowance). In case of individually insignificant financial assets, they should be reviewed separately or collectively. If there is no objective evidence of the impairment losses as a result of case-by-case review, the financial assets should be reviewed collectively by including other similar risky financial assets (collective assessment of allowance).

5) Income taxes

In accordance with income tax return, the Group may incur additional tax burden for three years starting from 2015, depending on the level of investment, personnel expenses, and dividends. Accordingly, management is measuring the income tax effects of the Group, which are expected to be borne by the Group, in consideration of expected investments, increases in personnel expenses, and dividends. There is uncertainty about these estimates related to corporate income tax refunds.

4. Fair value of financial instruments

(1) The book value and fair value of financial instruments not carried to fair value as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

		December 31, 2016		December 31, 2015	
Description	Financial instruments	Book value	Fair value	Book value	Fair value
Financial assets	Deposits	457,228	457,228	1,101,822	1,101,822
	HTM financial assets	9,180,485	9,180,485	4,633,848	4,633,848
	Loans	8,740,417	8,740,417	8,226,679	8,226,679
	Other financial assets	836,622	836,622	779,596	779,596
	Total	19,214,752	19,214,752	14,741,945	14,741,945
Financial liabilities	Borrowings	485,582	485,582	500,762	500,762
	Other financial liabilities	352,478	352,478	396,403	396,403
	Total	838,060	838,060	897,165	897,165

(2) Details of financial assets and financial liabilities that are measured at fair value at the end of the reporting period are as follows:

Fair value is the price that will be received when an asset is sold or the price that will be paid when the liability is transferred in a normal transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using valuation techniques. In estimating fair value of an asset or liability, the Group considers characteristics of the asset or the liability that market participants consider when determining the price of the asset or the liability. Except for lease transactions that are included in the scope of K-IFRS 1017 Leases, and measurements that are partially similar to fair value but are not fair value, such as the value in use of K-IFRS 1036 Impairment of Assets, fair value for measurement or disclosure purposes is determined according to the principles described above.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Level 1 to Level 3, based on the degree to which the fair value is observable, as described below:

(Level 1) Fair value measurements are those derived from quoted prices (unadjusted) in accessible active markets for identical assets or liabilities at the measurement date.

(Level 2) Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

(Level 3) Fair value measurements are those derived from valuation techniques that include unobservable inputs for the asset or liability.

Fair value measurements by fair value hierarchy level as of December 31, 2016 and 2015, are as follows:

December 31, 2016 (In millions of Korean won)

Description	Financial instruments	Level 1	Level 2	Level 3	Total
	Financial assets at FVTPL	11,002	1,068,701	317,570	1,397,273
Financial assets	AFS financial assets	8,533	6,381,692	3,009,115	9,399,340
	Derivative assets	—	16,601	7,027	23,628
	Total	19,535	7,466,994	3,333,712	10,820,241
Financial liabilities	Derivative liabilities	—	248,486	579	249,065

December 31, 2015 (In millions of Korean won)

Description	Financial instruments	Level 1	Level 2	Level 3	Total
	Financial assets at FVTPL	7,404	1,065,690	810,508	1,883,602
Financial assets	AFS financial assets	23,065	7,236,034	2,292,768	9,551,867
	Derivative assets	—	12,894	7,664	20,558
	Total	30,469	8,314,618	3,110,940	11,456,027
Financial liabilities	Derivative liabilities	—	172,643	690	173,333

The changes in financial instruments classified as Level 3 for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	Financial instruments	Beginning	Acquisition	Sale	Depreciation	Valuation	Transfer	Translation	Ending
Financial assets	Financial assets at FVTPL	810,508	—	(494,846)	—	(647)	—	2,555	317,570
	AFS financial assets	2,292,768	1,056,465	(326,032)	8,085	(56,693)	4,985	29,537	3,009,115
	Derivative assets	7,664	4,691	(2,481)	—	(2,769)	(78)	—	7,027
	Total	3,110,940	1,061,156	(823,359)	8,085	(60,109)	4,907	32,092	3,333,712
Financial liabilities	Derivative liabilities	690	—	(303)	—	270	(78)	—	579

Description	Financial instruments	Beginning	Acquisition	Sale	Depreciation	Valuation	Translation	Ending
Financial assets	Financial assets at FVTPL	629,477	324,702	(139,273)	—	(12,501)	8,103	810,508
	AFS financial assets	1,996,175	942,395	(679,573)	1,707	6,041	26,023	2,292,768
	Derivative assets	8,745	1,618	(3,215)	—	516	—	7,664
	Total	2,634,397	1,268,715	(822,061)	1,707	(5,944)	34,126	3,110,940
Financial liabilities	Derivative liabilities	1,044	—	—	—	(354)	—	690

(3) The equity securities measured at cost of KRW81,076 million and KRW109,226 million as of December 31, 2016 and 2015, whose fair values cannot be reliably measured and do not have quoted market prices in an active market.

(4) The following is a description of valuation techniques and input variables used in fair value measurement of financial instruments classified as Level 2 and Level 3

- Government and Public Bonds, Finance Debentures, Corporate bonds, Commercial Papers, and Bonds with Warrants

Fair value of government and public bonds, finance debentures, corporate bonds, commercial papers, and bonds with warrants is determined using the discounted cash flow model, which applies the discount curve, the coupon rate, the remaining maturity, and the credit rating determined based on the yield curve derived from the market interest rate at the end of the reporting period. Such fair value measurements were classified as Level 2 in the fair value hierarchy.

- Bonds denominated in a foreign currencies

Fair value of bonds denominated in a foreign currency is determined using the discounted cash flow model, which applies interest rates per currency calculated from the rate of return on Treasury, IRS and CRS; and credit risk measured by using credit rating, market trading information and CDS spread. Such fair value measurements were classified as Level 2 in fair value hierarchy.

- Mortgage Backed Securities ("MBS")

Fair value of MBS is determined by the discounted cash flow method that calculates the weighted-average expected maturity of the MBS with early repayment. Discount rate used for cash flow discounts is determined based on matrix-based YTM and credit spreads, which are calculated through observing the issuer's creditworthiness of bonds subject to the fair value measurement and transactions of bonds with similar maturities. The fair value of the MBS with floating rate note (FRN) is calculated by determining the future payment interest following the calculation of Implied Forward Rate of the benchmark interest rate. Because forward interest rate, which is a significant input variable for mortgage-backed securities, is derived based on information available in the market, the Group classified the fair value measurements of the mortgage-backed securities as Level 2 in the fair value hierarchy.

- Optional Bond

Fair value of optional bond is measured by using the Hull and White model, in which short-term interest rate is estimated and expected cash flows are discounted at a discount rate that reflects the credit spread. Regression coefficient and volatility coefficient are used to estimate the discount rate used in the Hull and White model and these variables are estimated by calibrating current market interest rate term structure and volatility data. The Group, therefore, classified the fair value measurements of optional bonds as Level 3 in the fair value hierarchy.

- Derivatives Linked Securities and Derivative Linked Bonds

Fair value is determined by using the Finite Difference Method (FDM) of the Partial Differential Equation (PDE) derived from the Black-Scholes model. The fair value of the derivatives linked securities that cannot be measured by the Black Scholes model is calculated by applying the Monte Carlo simulation technique to generate future stock price scenarios, and then discounting weighted average of the future cash flows of the equity linked securities for each scenario at discounted rate that reflects the creditworthiness of the issuer. In order to generate future share price scenarios, it is necessary to estimate expected return on underlying asset, underlying asset volatility, and a correlation coefficient between underlying assets (if there are two or more underlying assets). The volatility that is used to measure the fair value of derivatives linked securities uses implied volatility, and the correlation coefficient is estimated using historical stock price data. Because the volatility of and the correlation coefficient of the underlying assets, which is a significant input variables for derivatives linked securities and derivative linked bonds, correspond to inputs that are not observable in the market (Level 3 inputs, the Group classified the fair value measurements as Level 3 in the fair value hierarchy.

- Structured Notes ("SN")

Fair value of SN is measured by applying the Monte Carlo simulation method using the Hull and White model. Expected cash flows for each scenario are developed along with future interest rate and these cash flows are discounted using a discount rate that reflects credit spread of the issuer. Regression coefficients and coefficient of variation are required to estimate interest rates using the Hull-White model and these parameters are estimated based on the current market's term structure and volatility data. Interest rate coefficient of variation and interest rate regression coefficients correspond to inputs that are not observable in the market (level 3 inputs). The Group classified the fair value measurements as Level 3 in the fair value hierarchy because the effect of interest rate coefficients of variation and interest rate regression coefficients on the fair value of SN is significant.

- Credit Linked Notes ("CLN")

Fair value of CLN is measured by using the Hull and White Model that uses correlation coefficients between reference assets. Expected cash flows are developed by multiplying expected cash flow of Derivatives-linked Securities (DLS) by FTD survival probability, which reflects survival probability of the reference assets and the issuer as well as the correlation coefficient of them. The expected cash flows are then discounted to present value and added up to calculate the fair value. Amount of losses incurred due to the occurrence of a credit issue on reference assets and issuers is assumed to be 40% of the seniority normally applied in the credit derivatives market. Discount rate used to measure fair value is determined using a yield curve derived from interest rate announced in the market at the end of the reporting period. Correlation coefficients between references assets correspond to inputs that are not observable in the market (Level 3 input variables). The fair value measurements, therefore, were classified as level 3 in the fair value hierarchy.

- Hybrid Securities

Fair value of hybrid securities is measured by using the Hull and White One Factor Model. Short rates are estimated and expected cash flows are discounted at a rate that reflects credit spread. Since the discount rate used in the Hull and White One Factor Model is calculated using the curve based on the hybrid security rating, the Group classified fair value measurements of hybrid securities as Level 3 in the fair value hierarchy.

- Currency Forward, Currency Swap ("CRS") and Interest Rate Swap ("IRS")

The fair value of currency forward are measured based on a forward rate applicable for the remaining period of the currency forward to be measured, and the forward rate is quoted in the market at the end of the reporting period. In case that the forward rates are not available at the end of the reporting period, a interpolation method is applied to forward rates for each period quoted in the market in order to estimate the forward rate required for the fair value measurement. A discount rate used to measure the fair value of currency forward are based on the Interest Rate parity and it calculates CRS interest rate back using the forward rates and spot rates that the fair value measurement is based on.

Discount rates and forward interest rates used in fair value measurements of CRSs and IRSs are determined based on an applicable yield curve derived from interest rates announced in the market at the end of reporting period. Foreign exchange rates used in the CRSs are the exchange rates at the end of the reporting period. The fair value of the CRSs is measured by discounting and offsetting its future cash flows at an appropriate discount rate based on the forward interest rates and the closing exchange rates derived from the above method. On the other hand, expected cash flows are developed based on the forward interest rates derived from the above method and the expected cash flows are then discounted at an appropriate rate to measure the fair value of the IRSs.

As described above, input variables used in the fair value measurements of the currency forwards, CRSs, and IRSs are derived from the forward rates, the spot rates, and the yield curve that are observable in the market. Therefore, the Group classified fair value measurements of currency forwards, CRSs, and IRSs as Level 2 in the fair value hierarchy.

- Consideration for Stock Warrants

The fair value of consideration for stock warrants is measured using the option pricing model. Stock volatility, which is a significant input variable used to measure the fair value of the warrants, is estimated based on historical stock price changes. Estimated stock volatility based on historical data does not reflect the expectations of market participants at the end of the reporting period for future share price fluctuations and therefore is a non-observable input variable (level 3 input variable) in the market. The Group has determined that the effect of price volatility on the option value is significant and classified the fair value measurements of the conversion rights consideration as Level 3 in the fair value hierarchy.

- Unlisted Stocks

The fair values of unlisted stocks are measured using a discounted cash flow model, in which some assumptions that are not based on observable market prices or rates such as revenue growth, pre-tax operating profit margin and weighted average cost of capital (WACC) are used to estimate future cash flows. WACC used to discount the future cash flows is calculated using the Capital Asset Pricing Model (CAPM). The Group has determined that the effects of above assumptions and estimations on the fair values of the unlisted stocks is significant and therefore classified the fair value measurements of the unlisted stocks as Level 3 in the fair value hierarchy.

(5) Transfers between levels are recognized at the time the event occurred. In addition, there are no changes in valuation techniques used in fair value measurement of financial instruments that are classified as Level 2 and Level 3 during the current fiscal period.

(6) The following table illustrates quantitative information on fair value measurements using significant but non-observable input variables and the relationship between non-observable input variables and fair value measurements.

Description	Fair Value	Fair value measurements	Unobservable inputs	Range (Weighted average)
Financial assets	3,333,712	Discounted cash flow/ Comparable analysis	Growth rate Discount rate	Growth rate: -1% ~ 1% Discount rate: -1% ~ 7.85%
		Binominal Model	Volatility of interest / Stock volatility	—
		Monte Carlo Simulation	Volatility of underlying assets / Volatility correlation coefficient	—
		Poisson Model	CDS PAR spread	0.032% ~ 1.159%
		Hull & White Credit Model	Correlation coefficient	0.5, 0.8
		Black-Scholes Model Monte Carlo Simulation	Stock volatility	2.09% ~ 20.91% 6.03% ~ 21.37%
		Hull & White Model	Regression coefficient Interest rate curve	0.54% ~ 2.63%
Financial liabilities	579	Hull & White Model	Rating curve Volatility of interest	1.31% ~ 3.81%
		Monte Carlo Simulation	Volatility of underlying assets / Volatility correlation coefficient	—

5. CATEGORIES OF FINANCIAL INSTRUMENTS

Categories of financial instruments as of December 31, 2016 and 2015, consist of the following:

(1) Financial assets

(December 31, 2016) (In millions of Korean won)

Description	Financial assets at FVTPL	Loans and receivables	AFS financial assets	HTM financial assets	Hedged derivative instruments	Total
Deposits	—	457,228	—	—	—	457,228
Securities	1,397,274	—	9,480,416	9,180,485	—	20,058,175
Loans	—	8,740,417	—	—	—	8,740,417
Derivative assets	15,898	—	—	—	7,730	23,628
Other financial assets	—	836,622	—	—	—	836,622
Total	1,413,172	10,034,267	9,480,416	9,180,485	7,730	30,116,070

(December 31, 2015) (In millions of Korean won)

Description	Financial assets at FVTPL	Loans and receivables	AFS financial assets	HTM Financial Assets	Hedged derivative instruments	Total
Deposits	—	1,101,822	—	—	—	1,101,822
Securities	1,883,602	—	9,661,093	4,633,848	—	16,178,543
Loans	—	8,226,679	—	—	—	8,226,679
Derivative assets	11,964	—	—	—	8,594	20,558
Other financial assets	—	779,596	—	—	—	779,596
Total	1,895,566	10,108,097	9,661,093	4,633,848	8,594	26,307,198

(2) Financial Liabilities

(December 31, 2016) (In millions of Korean won)

Description	Financial liabilities at FVTPL	Hedged derivative instruments	Financial liabilities carried at amortized cost	Total
Borrowings	—	—	485,582	485,582
Derivative liabilities	864	248,201	—	249,065
Other financial liabilities	—	—	352,478	352,478
Total	864	248,201	838,060	1,087,125

(December 31, 2015) (In millions of Korean won)

Description	Financial liabilities at FVTPL	Hedged derivative instruments	Financial liabilities carried at amortized cost	Total
Borrowings	—	—	500,762	500,762
Derivative liabilities	1,321	172,012	—	173,333
Other financial liabilities	—	—	396,403	396,403
Total	1,321	172,012	897,165	1,070,498

(3) Maturity analysis of financial assets as of December 31, 2016 and 2015, is as follows (In millions of Korean won):

	December 31, 2016			December 31, 2015		
Accounts	Less than one year	One year or more	Total(*3)	Less than one year	One year or more	Total(*3)
Debt securities	952,764	11,452,753	12,405,517	1,015,200	9,494,612	10,509,812
Overseas securities(*1)	206,023	4,014,010	4,220,033	168,812	2,487,557	2,656,369
Loans(*2)	444,023	6,675,953	7,119,976	385,591	6,329,503	6,715,094
Total	1,602,810	22,142,716	23,745,526	1,569,603	18,311,672	19,881,275

(*1) Bond-type overseas securities are subject to calculation.
(*2) Policy loans are excluded.
(*3) It was calculated based on fair value of financial assets.

6. CASH AND CASH EQUIVALENTS, AND DEPOSITS

(1) Cash and cash equivalents and deposits as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Cash and cash equivalent		
Cash and demand deposit	52,657	109,562
CMA and others	290,932	381,633
Subtotal	343,589	491,195
Deposits		
Time deposits	342,282	980,163
Others	114,946	121,659
Subtotal	457,228	1,101,822
Total	800,817	1,593,017

(2) Details of restricted deposits as of December 31, 2016, and 2015, are as follows (In millions of Korean won):

Accounts	Financial institutions	December 31, 2016	December 31, 2015	Reason for restrictions
Ordinary deposits	KEB Hana Bank	5,554	5,554	Establishment of a pledge right related to lease
Checking deposits	KEB Hana Bank	8	8	Opening current account
Total		5,562	5,562	

7. SECURITIES

(1) Details of securities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Financial assets at FVTPL	1,397,274	1,883,602
AFS financial assets	9,480,416	9,661,093
HTM financial assets	9,180,485	4,633,848
Total	20,058,175	16,178,543

(2) Details of financial assets at FVTPL as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Trading securities		
Stocks	1,043	7,404
Special bonds	20,034	99,967
Corporate bonds	86,421	75,029
Equity securities-beneficiary certificates	806,331	591,328
Other securities	131,492	255,450
Subtotal	1,045,321	1,029,178
Financial assets designated as at FVTPL		
Stocks	—	102,252
Financial bonds	21,195	22,063
Corporate bonds	20,308	104,389
Overseas securities	111,249	55,106
Other securities	199,201	570,614
Subtotal	351,953	854,424
Total	1,397,274	1,883,602

(3) Details of AFS financial assets as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description		December 31, 2016	December 31, 2015
Equity securities	Stocks	104,785	103,997
	Investments	12,232	15,991
	Beneficiary certificates	2,666,245	2,011,394
	Overseas securities	5,674	—
	Subtotal	2,788,936	2,131,382
Debt securities	Government and public bonds	324,993	309,231
	Special bonds	956,866	922,401
	Financial bonds	731,758	1,016,645
	Corporate bonds	1,549,800	2,345,990
	Overseas securities	2,556,207	2,558,916
	Other securities	571,856	376,528
	Subtotal	6,691,480	7,529,711
	Total	9,480,416	9,661,093

As of December 31, 2016, the Group has AFS financial assets amounting to KRW 62,000 million. Securities lending transaction is a transaction that pledges to return the same amount of securities after a certain period and transfers the ownership, the Company has not been able to meet the conditions for the transfer of the financial asset and has been recognized as an asset of the Company.

(4) Changes in gain or loss on AFS financial assets for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Accounts	Beginning	Valuation	Profit or loss	Transfer	Impairment	Ending
Stocks	26,471	(705)	(125)	—	—	25,641
Investments	(703)	722	(20)	—	—	(1)
Government and public bonds	15,306	38,291	(2,156)	(53,114)	—	(1,673)
Special bonds	44,987	(9,081)	(1,811)	(13,733)	—	20,362
Financial bonds	47,261	(4,001)	(4,117)	(6,336)	—	32,807
Corporate bonds	62,831	16,407	(10,567)	(44,530)	—	24,141
Beneficiary certificates	21,409	5,876	(1,079)	—	—	26,206
Overseas securities	21,991	11,799	2,356	(85,735)	—	(49,589)
Other securities	6,418	(15,825)	744	—	—	(8,663)
Subtotal	245,971	43,483	(16,775)	(203,448)	—	69,231
Deferred tax effect	(50,970)					(15,031)
The amount after deducting deferred tax effect	195,001					54,200
The amount allocated to policyholders' equity adjustments	24,341					4,123
The amount allocated to shareholders' equity adjustments	136,485					36,168
The amount allocated to Non-controlling interest	34,175					13,909
Total	195,001					54,200

December 31, 2015

Accounts	Beginning	Valuation	Profit or loss	Transfer	Impairment	Ending
Stocks	27,480	574	(1,583)	—	—	26,471
Investments	127	(774)	(56)	—	—	(703)
Government and public bonds	92,977	43,018	(1,441)	(119,248)	—	15,306
Special bonds	143,351	58,796	(15,036)	(142,124)	—	44,987
Financial bonds	63,631	32,561	(7,574)	(41,357)	—	47,261
Corporate bonds	119,804	43,613	(16,625)	(83,961)	—	62,831
Beneficiary certificates	19,912	2,231	(734)	—	—	21,409
Overseas securities	60,258	(36,603)	(1,664)	—	—	21,991
Other securities	15,089	1,438	(10,109)	—	—	6,418
Subtotal	542,629	144,854	(54,822)	(386,690)	—	245,971
Deferred tax effect	(109,117)					(50,970)
The amount after deducting deferred tax effect	433,512					195,001
The amount allocated to policyholders' equity adjustments	85,769					24,341
The amount allocated to shareholders' equity adjustments	292,142					136,485
The amount allocated to Non-controlling interest	55,601					34,175
Total	433,512					195,001

(5) Details of impairment losses on AFS financial assets for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Debt securities	—	1,193
Total	—	1,193

(6) Details of HTM financial assets as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Government and public bonds	2,012,517	856,656
Special bonds	2,742,240	2,001,504
Financial bonds	667,569	528,250
Corporate bonds	2,011,987	1,247,438
Overseas securities	1,746,172	—
Total	9,180,485	4,633,848

During the year ended December 31, 2016, the Group changed its AFS financial assets to KRW 2,867,457 million as HTM financial assets. Reclassification of HTM financial assets has been measured at the fair value of the reclassification date. Unrealized gain or loss on AFS financial assets (accumulated other comprehensive income) related to the reclassified debt securities is reclassified to gain or loss on AFS financial assets substitution of held-to-maturity financial assets (accumulated other comprehensive income); and is amortized over remaining life of the debt securities using the effective interest rate method.

As of December 31, 2016, the Group has HTM financial assets including loans amounting to KRW 335,000 million and USD 60,000 thousand. A securities lending is a transaction that pledges to return the same amount of securities after a certain period and transfers the ownership. The Group has not been able to meet derecognition conditions for the transfer of the financial asset and therefore continues to recognize it as an asset of the Group

(7) Changes in gain or loss on HTM financial assets for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won).

December 31, 2016

Accounts	Beginning	Valuation	Profit or loss	Transfer	Impairment	Ending
Government and public bonds	110,645	—	—	53,114	(11,827)	151,932
Special bonds	131,109	—	—	13,733	(13,420)	131,422
Financial bonds	36,484	—	—	6,337	(6,479)	36,342
Corporate bonds	75,641	—	—	44,530	(8,695)	111,476
Overseas securities	—	—	—	85,735	(1,589)	84,146
Subtotal	353,879	—	—	203,449	(42,010)	515,318
Deferred tax effect	(70,500)					(109,346)
The amount after deducting deferred tax effect	283,379					405,972
The amount allocated to policyholders' equity adjustments	59,227					58,142
The amount allocated to shareholders' equity adjustments	192,270					303,348
The amount allocated to non - controlling interest	31,882					44,482
Total	283,379					405,972

December 31, 2015

Accounts	Beginning	Valuation	Profit or loss	Transfer	Impairment	Ending
Government and public bonds	—	—	—	119,248	(8,603)	110,645
Special bonds	—	—	—	142,124	(11,015)	131,109
Financial bonds	—	—	—	41,357	(4,873)	36,484
Corporate bonds	—	—	—	83,961	(8,320)	75,641
Subtotal	—	—	—	386,690	(32,811)	353,879
Deferred tax effect	—					(70,500)
The amount after deducting deferred tax effect	—					283,379
The amount allocated to policyholders' equity adjustments	—					59,227
The amount allocated to shareholders' equity adjustments	—					192,270
The amount allocated to non -controlling interest	—					31,882
Total	—					283,379

8. STATUS OF SUBSIDIARIES

(1) Details of status of subsidiaries as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

	Name of company	Main operating activity	Location	Closing date	Ownership December 31, 2016	Ownership December 31, 2015
Subsidiaries	Heungkuk Fire&Marine Insurance Co., Ltd.	Insurance	Korea	December 31	59.6%	59.6%
Beneficiary certificates(*1)	Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	Collective investment schemes(security)	Korea	June 3	60.0%	59.6%
	Heungkuk Market Leaders Private Securities No.2	Collective investment schemes(security)	Korea	November 1	—	100.0%
	Heungkuk Market Leaders Securities Investment Trust 1[Equity]C-I	Collective investment schemes(security)	Korea	March 5	72.5%	—
	Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	Collective investment schemes(real estate)	Korea	December 31	60.0%	60.0%
	Darby HANA BTL Special Asset Trust Fund II	Collective investment schemes(real estate)	Korea	October 4	65.5%	65.5%
	Darby HANA Renewable Energy Special Asset Trust Fund	Collective investment schemes(real estate)	Korea	October 4	71.4%	71.4%
	Heungkuk Global Private Placement Special Asset Investment Trust No.1	Collective investment schemes(security)	Korea	November 18	68.8%	68.8%
	Heungkuk Highclass Private Bond Trust 1	Collective investment schemes(security)	Korea	October 2	100.0%	100.0%
	Korea investment Private KP Securities Investment Trust No.6	Collective investment schemes(security)	Korea	April 17	—	100.0%

(*1) In accordance with the K-IFRS 1110, the Group comprehensively considers the K-IFRS' controlling elements: "power", "income fluctuation", and a "relation between power and income fluctuation" when determining whether the Group has control over an entity. If the Group judges that it has control over an entity, the entity is subject to the consolidation.

(2) The subsidiaries excluded from consolidation as of December 31, 2016 are as follows:

Name of Subsidiaries	Reason
Korea investment Private KP Securities Investment Trust No.6	Disposition
Heungkuk Market Leaders Private Securities No.2	Disposition

(3) The subsidiaries included in the consolidation as of December 31 are as follows

Name of Subsidiaries	Reason
Heungkuk Market Leaders Securities Investment Trust 1[Equity]C-I	Acquisition

(4) The summary financial information of subsidiaries (before elimination of internal transactions) as of December 31, 2016 and 2015, is as follows (in millions of Korean won).

(2016)

Subsidiaries	Total assets	Total liabilities	Total equity	Operating income	Net income (losses)	Comprehensive income
Heungkuk Fire&Marine Insurance Co., Ltd.	10,204,007	9,650,787	553,220	4,334,332	33,653	27,269
Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	19,177	5	19,172	2,103	1,210	1,210
Heungkuk Market Leaders Private Securities No.2	—	—	—	1,144	241	241
Heungkuk Market Leaders Securities Investment Trust 1[Equity]C-I	9,958	2	9,956	315	305	305
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	51,781	432	51,349	2,368	1,734	1,734
Darby HANA BTL Special Asset Trust Fund II	50,053	29	50,024	2,399	2,083	2,083
Darby HANA Renewable Energy Special Asset Trust Fund	16,361	12	16,349	966	916	916
Heungkuk Global Private Placement Special Asset Investment Trust No.1	54,541	6,027	48,514	8,800	3,851	3,851
Heungkuk Highclass Private Bond Trust 1	4	45	(41)	—	(1)	(1)
Korea investment Private KP Securities Investment Trust No.6	—	—	—	3,342	688	586

(2015)

Subsidiaries	Total assets	Total liabilities	Total equity	Operating income	Net income (losses)	Comprehensive income
Heungkuk Fire&Marine Insurance Co., Ltd.	8,975,966	8,533,890	442,076	4,226,188	18,051	40,452
Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	18,111	5	18,106	2,224	1,340	1,340
Heungkuk Market Leaders Private Securities No.2	7,174	74	7,100	1,813	(134)	(134)
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	53,191	500	52,691	2,332	1,771	1,771
Darby HANA BTL Special Asset Trust Fund II	52,253	30	52,223	2,487	2,160	2,160
Darby HANA Renewable Energy Special Asset Trust Fund	17,704	13	17,691	1,342	1,279	1,279
Heungkuk Global Private Placement Special Asset Investment Trust No.1	66,711	5,740	60,971	6,070	4,050	4,050
Heungkuk Highclass Private Bond Trust 1	4	44	(40)	—	(1)	(1)
Korea investment Private KP Securities Investment Trust No.6	34,285	315	33,970	4,901	1,475	1,222

9. LOANS AND RECEIVABLES

(1) Details of loans and receivables as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Loans principal	8,756,084	8,237,998
Present value discount	(84)	(56)
LOCF	12,112	12,175
Allowance	(27,695)	(23,438)
Subtotal	8,740,417	8,226,679
Other receivables principal	872,124	815,664
Present value discount	(8,519)	(10,581)
Allowance	(26,983)	(25,487)
Subtotal	836,622	779,596
Total	9,577,039	9,006,275

(2) Details of types of loans as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Call loans	—	516
Policy loans	1,636,108	1,522,904
Loans secured by securities	33,792	35,000
Loans secured by real estates	2,281,016	2,216,776
Unsecured loans	2,265,620	1,991,548
Loans secured by third party guarantees	38,349	34,368
Other loans	2,501,200	2,436,886
Total(*1)	8,756,085	8,237,998

(*1) Loans are classified based on the principal of the loan.

(3) Details of receivables as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Account	Description	December 31, 2016	December 31, 2015
Reinsurance assets	Loans principal	249,423	241,924
Insurance receivables	Loans principal	258,015	235,881
	Allowance	(4,246)	(3,940)
	Subtotal	253,769	231,941
Other receivables	Loans principal	35,730	29,914
	Allowance	(21,995)	(21,019)
	Subtotal	13,735	8,895
Accrued income	Loans principal	226,920	205,857
	Allowance	(712)	(497)
	Subtotal	226,208	205,360
Leasehold and other deposits	Loans principal	102,035	102,088
	Present value discount	(8,519)	(10,582)
	Allowance	(30)	(30)
	Subtotal	93,486	91,476
	Total	836,621	779,596

(4) Details of loans that are impaired and overdue as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description (*2)	December 31, 2016	December 31, 2015
Loans that are neither past due, nor impaired	8,387,504	8,020,814
Loans past due, but not impaired	329,540	173,595
Impaired loans	39,040	43,589
Total	8,756,084	8,237,998

(*2) The amounts were classified as principal of loans.

(5) Changes in allowance for doubtful loans and receivables for the years ended December 31, 2016 and 2015, are as follows (in millions of Korean won):

	December 31, 2016			December 31, 2015		
Description	Loans	Receivables	Total	Loans	Receivables	Total
Beginning balance	23,438	25,487	48,925	21,007	10,852	31,859
(±) Net provision (reversal)	10,920	3,232	14,152	6,097	14,823	20,920
(+) Bad debt recovery	1,656	—	1,656	506	—	506
(-) Written off	(7,606)	(1,735)	(9,341)	(6,527)	(188)	(6,715)
(+) Others	—	—	—	3,318	—	3,318
(-) Unwinding	(713)	—	(713)	(963)	—	(963)
Ending balance	27,695	26,984	54,679	23,438	25,487	48,925

(6) Changes in LOCF on loans for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Description	Beginning	Increase	Amortization (reversal)	Ending
LOCF	12,175	5,290	(5,352)	12,113

December 31, 2015

Description	Beginning	Increase	Amortization (reversal)	Ending
LOCF	11,628	7,231	(6,684)	12,175

10. DERIVATIVES AND RISK HEDGING ACCOUNTING

The Group trades derivative instruments for trading and hedging, and Transactions for the purpose of hedging are intended to hedge the fair value of the receivables and cash flow fluctuations. Transactions for trading purpose include trading purpose transactions such as interest rate options for the management of assets and liabilities, as well as the purpose of obtaining market gains due to changes in basic variables such as exchange rates and interest rates. For the purpose of hedging transactions, the Group hedges the fair value and cash flow risk associated with changes in foreign exchange rates and interest rates on bonds held by the Group and Interest rate swaps and currency swaps are used as hedging instruments.

(1) Details of assets and liabilities by type of derivative as of December 31, 2016 and December 31, 2015 are as follows (In millions of Korean won):

		December 31, 2016				December 31, 2015			
		Trading		Hedging		Trading		Hedging	
Description		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Currency	Currency forward	—	—	930	29,147	93	301	2,635	33,271
	Currency swap	41	—	5,637	219,054	—	303	4,498	138,741
Interest rate	Interest rate options	1,526	—	1,163	—	1,723	—	1,461	—
Index	Stock index options	5,368	—	—	—	5,097	—	—	—
Credit	Credit options	7,280	864	—	—	2,628	717	—	—
other	Derivatives-linked securities	1,683	—	—	—	2,423	—	—	—
	Total	15,898	864	7,730	248,201	11,964	1,321	8,594	172,012

(2) Details of gains and losses on derivative instruments for the years ended December 31, 2016 and 2015 are as follows: (In millions of Korean won)

Description		December 31, 2016 Trading	December 31, 2016 Hedging	December 31, 2015 Trading	December 31, 2015 Hedging
Related currency	Forward exchange	235	(12,275)	(1,469)	(39,402)
	Currency swap	245	(130,536)	513	(119,757)
Interest rate	Interest rate options	(375)	173	2,122	672
Index	Stock index options	(3,424)	—	643	—
Credit	Credit options	4,489	—	474	—
Others	Derivatives-linked securities	(723)	—	1,559	—
	Total	447	(142,638)	3,842	(158,487)

(3) Details of gains and losses on valuation of hedges derivatives on accumulated other comprehensive income for the years ended December 31, 2016 and 2015 are as follows (In millions of Korean won):

December 31, 2016

Description	Beginning	Gain(loss)	Valuation	Ending
Gains and losses on valuation of hedges derivatives	7,001	(1,941)	22,778	27,838
Income tax effect	(1,527)	463	(5,781)	(6,845)
Balance after deducting income tax effect	5,474	(1,478)	16,997	20,993

December 31, 2015

Description	Beginning	Gain(loss)	Valuation	Ending
Gains and losses on valuation of hedges derivatives	11,876	(5,679)	804	7,001
Income tax effect	(2,735)	1,352	(144)	(1,527)
Balance after deducting income tax effect	9,141	(4,327)	660	5,474

(4) Details of securities provided as collateral in relations to derivative transactions as of December 31, 2015, are as follows (USD in thousand dollars, KRW in millions).

Presentee	Bond type	Unit	Par value
J.P. Morgan Chase	KP (Woori Bank and others), etc.	USD	35,000
Kookmin Bank etc	Government and public bonds and others	KRW	891,418

11. INSURED ASSETS

The Group carries fire insurance for building, etc., covered up to KRW 13,566 million in Lotte Indemnity Insurance Co., Ltd. The Group also carries comprehensive insurance and liability insurance for vehicles.

12. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

(1) Details of property and equipment, investment property and intangible assets as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Accounts	Description	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
Property and equipment	Land	221,101	—	—	221,101
	Buildings	99,188	(33,055)	—	66,133
	Construction in progress	10,910	—	—	10,910
	Vehicles	208	(192)	—	16
	Furniture and equipment	107,067	(92,642)	—	14,425
	Other properties and equipment	1,656	—	—	1,656
	Rental store facilities	7,263	(4,637)	—	2,626
	Subtotal	447,393	(130,526)	—	316,867
Investment property	Land	452,835	—	—	452,835
	Buildings	242,066	(67,474)	—	174,592
	Subtotal	694,901	(67,474)	—	627,427
Intangible assets	Goodwill	81,187	—	—	81,187
	Software	86,970	(68,469)	—	18,501
	Development costs	10,175	(3,809)	—	6,366
	Membership	31,306	(18,758)	(1,112)	11,436
	Subtotal	209,638	(91,036)	(1,112)	117,490

December 31, 2015

Accounts	Description	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
Property and equipment	Land	226,670	—	—	226,670
	Buildings	100,450	(31,647)	—	68,803
	Construction in progress	2,541	—	—	2,541
	Vehicles	208	(174)	—	34
	Furniture and equipment	102,672	(86,977)	—	15,695
	Other properties and equipment	936	—	—	936
	Rental store facilities	6,734	(3,667)	—	3,067
	Subtotal	440,211	(122,465)	—	317,746
Investment property	Land	447,334	—	—	447,334
	Buildings	239,887	(61,026)	—	178,861
	Subtotal	687,221	(61,026)	—	626,195
Intangible assets	Goodwill	81,187	—	—	81,187
	Software	80,781	(60,492)	—	20,289
	Development costs	8,003	(2,652)	—	5,351
	Membership	31,722	(16,203)	(1,191)	14,328
	Subtotal	201,693	(79,347)	(1,191)	121,155

(2) Changes in property and equipment, investment property and intangible assets for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Accounts	Description	Beginning	Acquisition	Disposal	Transfer	Depreciation	Other	Impairment	Ending
Property and equipment	Land	226,670	—	(68)	(5,501)	—	—	—	221,101
	Buildings	68,803	24	(83)	(404)	(2,207)	—	—	66,133
	Construction in Progress	2,541	11,249	—	(2,880)	—	—	—	10,910
	Vehicles	34	—	—	—	(18)	—	—	16
	Furniture and equipment	15,695	8,102	(699)	1,886	(10,559)	—	—	14,425
	Other properties and equipment	936	720	—	—	—	—	—	1,656
	Rental store facilities	3,067	1,783	(366)	—	(1,784)	(74)	—	2,626
	Sub total	317,746	21,878	(1,216)	(6,899)	(14,568)	(74)	—	316,867
Investment property	Land	447,334	—	—	5,501	—	—	—	452,835
	Buildings	178,861	—	—	1,399	(5,668)	—	—	174,592
	Sub total	626,195	—	—	6,900	(5,668)	—	—	627,427
Intangible assets	Goodwill	81,187	—	—	—	—	—	—	81,187
	Software	20,289	6,189	—	—	(7,977)	—	—	18,501
	Development cost	5,351	2,985	—	—	(1,970)	—	—	6,366
	Membership	14,328	243	(209)	—	(2,996)	—	70	11,436
	Sub total	121,155	9,417	(209)	—	(12,943)	—	70	117,490

December 31, 2015

Accounts	Description	Beginning	Acquisition	Disposal	Transfer	Depreciation	Other	Impairment	Ending
Property and equipment	Land	203,993	—	—	22,677	—	—	—	226,670
	Buildings	65,734	4,957	—	460	(2,348)	—	—	68,803
	Construction in Progress	—	9,034	—	(6,493)	—	—	—	2,541
	Vehicles	72	—	—	—	(38)	—	—	34
	Furniture and equipment	13,837	11,641	—	—	(9,783)	—	—	15,695
	Other properties and equipment	936	—	—	—	—	—	—	936
	Rental store facilities	1,881	2,677	(314)	—	(1,345)	168	—	3,067
	Sub total	286,453	28,309	(314)	16,644	(13,514)	168	—	317,746
Investment property	Land	470,262	—	(251)	(22,677)	—	—	—	447,334
	Buildings	180,263	—	(1,903)	6,033	(5,532)	—	—	178,861
	Sub total	650,525	—	(2,154)	(16,644)	(5,532)	—	—	626,195
Intangible assets	Goodwill	81,187	—	—	—	—	—	—	81,187
	Software	22,605	4,521	—	555	(7,392)	—	—	20,289
	Development cost	3,693	3,418	—	—	(1,760)	—	—	5,351
	Membership	17,576	—	(345)	—	(2,986)	—	83	14,328
	Sub total	125,061	7,939	(345)	555	(12,138)	—	83	121,155

(3) As of December 31, 2016, the appraisal value of the land is KRW 516,140 million. The rental income and operating expenses for investment property during the current and previous years are as follows (In millions of Korean won).

Description	2016	2015
Rental income (Earnings from leasing)	28,899	30,465
Operating expense (Investment property with rental income)	20,719	20,285
Operating expense (Investment property without rental income)	3,254	2,230

(4) Collateralized Assets

As of the end of the reporting period, the land and buildings of the Group are subject to a mortgage and leasehold rights to KRW 11,793 million and KRW 15,978 million, respectively.

13. OTHER FINANCIAL ASSETS

(1) Details of other financial assets as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Reinsurance assets	249,423	241,924
Insurance receivables	253,769	231,941
Other receivables	13,735	8,895
Accrued income	226,208	205,360
Leasehold and other deposits	93,486	91,476
Total	836,621	779,596

(2) Changes in reinsurance assets for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Description	Beginning	Increase(*)	Ending
Reinsurance assets	241,924	7,499	249,423

December 31, 2015

Description	Beginning	Decrease(*)	Ending
Reinsurance assets	244,232	(2,308)	241,924

(*) There are no impairment losses on reinsurance assets for the years ended December 31, 2016 and 2015. Changes in reinsurance assets are recognized as provision for insurance contract liabilities in the consolidated statements of comprehensive income.

(3) Details of accrued income as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Interest on deposits	10,837	19,673
Interest on securities	167,995	140,021
Interest on loans	40,205	34,019
Dividend income	7,535	11,759
Other income	348	385
Allowance for bad debts	(712)	(497)
Total	226,208	205,360

14. OTHER ASSETS

(1) Details of other assets as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Acquisition costs	1,365,893	1,435,368
Prepaid expenses	2,710	3,264
Advanced payments	9,589	2,358
Compensation receivables	3,545	4,048
Total	1,381,737	1,445,038

(2) Changes in acquisition costs for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won).

December 31, 2016

Description	Beginning	Increase	Decrease	Ending
Acquisition costs	1,435,368	534,165	(603,640)	1,365,893

December 31, 2015

Description	Beginning	Increase	Decrease	Ending
Acquisition costs	1,446,760	598,589	(609,981)	1,435,368

15. INSURANCE CONTRACT LIABILITIES

(1) Details of insurance contract liabilities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

				Reserve (recovery)	
Account	Description	December 31, 2016	December 31, 2015	2016	2015
Premium reserve	Endowment	13,134,335	11,932,362	1,201,973	1,537,008
	Term	7,114,790	6,129,794	984,996	769,479
	Mixed	7,827,698	6,534,552	1,293,146	1,561,728
	Group	58,515	62,122	(3,607)	(1,492)
Subtotal		28,135,338	24,658,830	3,476,508	3,866,723
Reserve for outstanding claims	Endowment	271,688	248,034	23,654	5,054
	Term	87,534	80,820	6,714	5,176
	Mixed	67,159	65,427	1,732	6,016
	Group	3,439	3,238	201	155
	IBNR	320,427	279,492	40,935	54,333
	General	63,701	53,197	10,504	(19,738)
	Vehicle	75,588	62,508	13,080	(3,831)
Subtotal		889,536	792,716	96,820	47,165
Reserve for unearned premium	Endowment	5,748	5,911	(163)	3,248
	Term	314	349	(35)	(70)
	Mixed	2	6	(4)	(4)
	Group	2	113	(111)	76
	General	66,262	69,941	(3,679)	7,597
	Vehicle	122,535	147,860	(25,325)	14,830
Subtotal		194,863	224,180	(29,317)	25,677
Reserve for minimum guaranteed benefit		79,859	65,162	14,697	10,828
Reserves for policyholders' dividends	Endowment	63,221	59,048	4,173	4,039
	Term	11,636	15,023	(3,387)	(922)
	Mixed	3,036	4,681	(1,645)	(1,116)
	Group	125	387	(262)	(91)
Subtotal		78,018	79,139	(1,121)	1,910
Reserve for policyholders' profit dividends		12,937	11,097	1,840	(2,588)
Reserve for loss preservation		10,181	6,240	3,941	2,134
Total		29,400,732	25,837,364	3,563,368	3,951,849

(2) Details of reserve for policyholders' dividends as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Account	Description	December 31, 2016	December 31, 2015	Reserve (recovery) 2016	Reserve (recovery) 2015
Reserve for excess crediting rate	Endowment	10,348	9,978	370	239
	Term	210	241	(31)	(17)
	Mixed	65	101	(36)	(58)
	Group	—	1	(1)	—
Subtotal		10,623	10,321	302	164
Reserve for mortality gain dividend	Endowment	6,307	6,793	(486)	(667)
	Term	7,104	9,760	(2,656)	(615)
	Mixed	1,095	2,012	(917)	(508)
	Group	71	281	(210)	(70)
Subtotal		14,577	18,846	(4,269)	(1,860)
Reserve for interest dividends	Endowment	34,196	29,406	4,790	5,463
	Term	248	300	(52)	(29)
	Mixed	273	329	(56)	(74)
	Group	2	7	(5)	(3)
Subtotal		34,719	30,042	4,677	5,357
Reserve for operating expense dividend	Endowment	12,152	12,642	(490)	(987)
	Term	4,065	4,714	(649)	(259)
	Mixed	1,516	2,146	(630)	(465)
	Group	52	98	(46)	(18)
Subtotal		17,785	19,600	(1,815)	(1,729)
Reserve for long-term maintenance dividend	Endowment	218	229	(11)	(9)
	Term	8	8	—	(1)
	Mixed	88	93	(5)	(12)
	Group	—	—	—	—
Subtotal		314	330	(16)	(22)
Total		78,018	79,139	(1,121)	1,910

16. INSURANCE CONTRACT LIABILITIES AND INVESTMENT CONTRACT LIABILITIES

Details of insurance contract liabilities and investment contract liabilities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description		December 31, 2016	December 31, 2015
General account	Insurance contract liabilities	29,400,736	25,837,364
Separate account	Insurance contract liabilities	1,324,970	1,416,947
	Investment contract liabilities	1,615,471	1,318,225
	Subtotal	2,940,441	2,735,172
Total		32,341,177	28,572,536

The insurance contract liabilities of the general account are presented as insurance contract liabilities in the financial statements and insurance contract liabilities of separate accounts are presented as insurance contract liabilities in the special account financial statement.

17. LIABILITY ADEQUACY TEST

I. Life Insurance Segment

(1) Subject for Evaluation of Insurance Contract Liabilities

As of December 31, 2016, insurance contracts and contracts contain discretionary participation features are subject to liability adequacy test. The insurance contract liabilities that are subject to liability adequacy test are the contracts subject to the test, and premium reserve and unearned premium reserve at the same date. Premium reserve is the amount of net premium reserve deducting unamortized acquisition cost.

(2) Assumption and basis as of December 31, 2016.

Description	Applied assumption	Basis
Discount rate	Average 3.6%	Calculate future asset return rate and use it as discount rate. ❇ Basis of calculation for future investment asset return: Calculates the best estimate of the return on asset management by reflecting past asset management performance and future investment strategies.
Business ratio	Acquisition Costs	For the items such as the allowance, operation cost, policy fee, and affiliate fee, past one year experience value is aggregated for each channel and calculated by the elapsed period according to the source of the conversion premium.
	Administration Expenses	Calculated by channel and commodity group for the deduction of one-time expenses from the business expenses of indirect costs that occurred during the previous year.
Cancelation rate		Calculate the cancelation rates by channel, individual / group, inclinations, and delivery dates based on the experience statistics for the last five years. Year-to-year decline rate is applied for the 1st to 12th year, and the 12th year cancelation rate is applied after 12th year.
Ratio of risk		Calculate the rate of risk by channel, individual / group, inclinations, and delivery dates based on the experience statistics for the last five years.

(3) Liability adequacy test is assessed by each insurance contract types, which are floating-rate insurance type and fixed-rate insurance type. Premium surplus and deficiency according to insurance types and result of liability adequacy test as of December 31, 2016, are as follows:

Description		Premium deficiencies (surplus)
Fixed-rate insurance	Dividend paid insurance	849,525
	Non-dividend paid insurance	226,246
Floating-rate insurance	Dividend paid insurance	(21,824)
	Non-dividend paid insurance	(1,233,871)
Variable life insurance		(54,384)
Total		(234,308)

Premium deficiency is recognized within the limit of the total premium surplus. As a result, additional accounting by liability adequacy test did not occur as of December 31, 2016.

II. Indemnity Insurance Segment

(1) The main assumptions and method of calculating for evaluation of liability adequacy of the indemnity insurance Part are as follows.

Description		December 31, 2016	December 31, 2015	Basis of Calculation
Long-term and annuity	Discount rate	1.87~5.37%	2.38~6.58%	Calculate the entity-wide rate of return on future invested assets following classification into new assets and holding assets
	Business ratio	6.21~454.44%	6.46~494.38%	Calculate unit cost as per application of business regulation; contract; proportion of premium; proportion of coverage based on operating expenses for the FY2016 • Selling expenses: Calculate based on sales regulations per sales channel by classifying proportional fees/ non-proportional fees/other acquisition costs • Maintenance expenses: Calculate unit cost of fixed and variable costs per sales channel/product group by dividing personnel expense/general administrative expenses/claim adjustment expenses
	Continuous rate	45.97~99.08%	48.54~98.40%	Based on recent 5-year experience statistics, calculate the ratio of maintenance premiums to premiums received.
	Loss ratio	14.56~678.45%	20.37~681.37%	Based on recent 5-year experience statistics, calculate the rate of loss incurred to risk premium by subdividing into risk unit.

Description		December 31, 2016	December 31, 2015	Basis of Calculation
General	Claim Adjustment ratio	3.56%	3.59%	The rate of claim adjustment expense to earned premium is calculated using a loss ratio once the ratio of claim adjustment expense to insurance claims is calculated by analyzing according to each major category described in the standard business method manual, based on recent 1-year experience statistics.
	Business ratio	10.65%	12.36%	Based on recent 1-year experience statistics, calculate the ratio of general administrative expenses to premiums received by analyzing each major category described in the standard business method manual.
	Loss ratio	46.28%	49.16%	Based on the recent 5-year experience statistics, calculate the ratio of final loss to earned premium by analyzing each major category described in the standard business method manual.
Vehicle	Claim Adjustment ratio	7.08%	6.94%	The rate of claim adjustment expense to earned premium is calculated using a loss ratio once the ratio of claim adjustment expense to insurance claims is calculated by analyzing each major category described in the standard business method manual, based on recent 3-year experience statistics.
	Business ratio	11.13%	9.73%	Based on recent 1-year experience statistics, calculate the ratio of general administrative expenses to premiums received by analyzing each major category described in the standard business method manual.
	Loss ratio	79.83%	80.11%	Based on the recent 5-year experience statistics, calculate the ratio of final loss to earned premium by analyzing each major category described in the standard business method manual.

(2) Details of insurance contract amounts by insurance contract type and results of liability adequacy assessment as of December 31, 2016 are as follows (in millions of Korean won).

Description		Premium reserves for unearned premium reserve(Note)	LAT base amount (Note)	LAT deficit (surplus)
Long-term and annuity	Fixed interest rate with profit insurance	9,189	10,132	943
	Fixed interest rate without dividend	172,064	176,956	4,892
	Floating interest rate with profit insurance	250,704	249,942	(762)
	Floating interest rate without dividend	7,269,036	4,965,895	(2,303,141)
	Sub total	7,700,993	5,402,925	(2,298,068)
Vehicle		122,535	120,132	(2,403)
General		64,955	39,292	(25,663)

(Note) Pre-payment and premium reserves were excluded in the case of long-term and annuity insurance and it was calculated based on unearned premium reserve in the case of automobile and general insurance.

In the non-life insurance segment, there is no accounting treatment resulting from the liability adequacy assessment as of the end of the reporting period.

18. POLICYHOLDERS' EQUITY ADJUSTMENT

Details of policyholders' equity adjustment as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Net change in fair value of AFS financial assets	4,123	24,341
Net change in fair value of HTM financial assets	58,142	59,227
Net change in property revaluation surplus(*)	4,952	6,011
Total	67,217	89,579

(*) The Company uses fair value in its opening K-IFRS statement of financial position as deemed cost for an item of property and equipment, an investment property. Aggregate property revaluation surplus is allocated into policyholders' equity and shareholders' equity based on the portion of average insurance contracts liability of dividend insurance policies and non-dividend insurance policies for the fiscal year.

19. BORROWINGS

(1) Borrowings as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Private placement bond	286,141	301,390
Public bond	199,441	199,372
Total	485,582	500,762

(2) Details of list for the Group's issuance of bonds as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	Contract date	Maturity date	Interest rate	December 31, 2016	December 31, 2015	Repayment method
Subordinated unguaranteed private placement bond	2012-9-26	2018-4-26	4.85%	—	100,000	Callable
	2016 12-28	2022-7-28	4.34%	80,000	—	Maturity
	2013-3-4	2019-1-4	CD91+256bp	—	40,000	Callable
	2013-9-30	2019-7-30	5.50%	31,141	31,390	Maturity
	2013-9-30	2019-7-30	CD91+284bp	—	5,000	Callable
	2013-9-30	2019-7-30	CD91+284bp	—	5,000	”
	2014-9-29	2020-7-29	5.50%	40,000	40,000	Maturity
	2014-9-29	2021-9-29	5.70%	20,000	20,000	”
	2014-9-29	2020-7-29	5.50%	—	10,000	Callable
	2015-6-30	2023-4-30	5.40%	40,000	40,000	Maturity
	2015-6-30	2023-4-30	5.40%	10,000	10,000	”
	2016-9-29	2022-1-29	CD91+256bp	45,000	—	”
	2016-9-29	2024-1-29	4.60%	20,000	—	”
Sub total . . .				286,141	301,390	
Subordinated unguaranteed public bond . . .	2013-10-10	2023-10-10	5.00%	199,441	199,372	Maturity
Total				485,582	500,762	

There are no assets or guarantees provided as collateral for the above borrowings.

20. SEPARATE ACCOUNTS

(1) Separate account assets and liabilities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Account	December 31, 2016	December 31, 2015
Separate account assets before netting	2,999,804	2,797,345
Separate account payables before netting	(332,528)	(326,842)
Separate account assets after netting	2,667,276	2,470,503
Separate account liabilities before netting	2,991,731	2,780,873
Separate account receivables before netting	(18,396)	(20,813)
Separate account liabilities after netting	2,973,335	2,760,060
Other comprehensive income of separate accounts . . .	8,073	16,472

(2) Statements of financial position of separate accounts as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Accounts	December 31, 2016	December 31, 2015
<Assets>		
I. Cash and deposits	64,216	82,012
II. Securities	2,371,229	2,121,974
III. Loans	204,751	244,136
IV. Other assets	27,080	22,381
V. Other receivables on general accounts	332,528	326,842
Total assets	2,999,804	2,797,345
<Liabilities>		
I. Other liabilities	32,894	24,888
II. Other payables on general accounts	18,396	20,813
III. Insurance contract liabilities	1,324,970	1,416,947
IV. Investment contract liabilities	1,615,471	1,318,225
Total liabilities	2,991,731	2,780,873
<Other comprehensive income>	8,073	16,472
Liabilities and other comprehensive income	2,999,804	2,797,345

(3) Income statements of separate accounts for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won:

Description	December 31, 2016		December 31, 2015	
	Trust accounts guaranteeing the repayment of principal	Performance based trust accounts	Trust accounts guaranteeing the repayment of principal	Performance based trust accounts
<Revenue>				
Premium income	—	189,472	—	213,799
Interest Income	37,097	13,576	28,656	16,645
Dividend income	6,564	10,826	4,677	9,911
Gain on disposal and valuation of securities	3,759	108,295	3,366	140,164
Gain on disposal and valuation of derivatives	1,717	26,648	662	32,709
Gain on exchange differences	48	984	291	477
Other income	7,562	143,312	8,842	188,928
Total	56,747	493,113	46,494	602,633
<Expenses>				
Change in reserves for insurance contracts	29,348	(90,700)	23,719	(27,644)
Insurance claims paid	983	229,232	828	232,174
Minimum guarantee fee	—	5,681	—	5,563
Separate account commission	12,117	87,012	10,797	55,156
Commission expense	14	3,752	134	4,796
Loss on sale and valuation of securities	625	89,404	279	110,315
Loss on sale and valuation of derivatives	6,677	25,799	7,124	35,312
Loss on exchange differences	376	955	13	1,381
Other expenses	6,607	141,978	3,600	185,580
Total	56,747	493,113	46,494	602,633

Revenue and expenses on performance-based separate accounts (variable insurance contract) are not reflected in the general account's comprehensive income statement. However, revenue and expenses on separate accounts guaranteeing the repayment of principal are accounted for as separate account revenue and expenses in the general account comprehensive statement of income.

(4) Restricted separate account assets as of December 31, 2016, are as follows (In millions of Korean won):

Description	Restricted Asset Value
Indemnity Index Balanced Fund	180
Indemnity Index Growth Balanced Fund	29
Variable universal whole life Growth Balanced Fund	445
Variable annuity II Index Balanced Fund	360
Variable annuity II Index Growth Balanced Fund	775
Variable annuity II Growth Balanced Fund	1,685
Variable annuity II Index Balanced Fund II	180
Variable annuity II Index Growth Balanced Fund II	360
Variable annuity II i-Pacific Asia Balanced Fund	661
Variable annuity II Invest Asia Balanced Fund	2,294
Retirement pension Index Balanced Fund	52
Variable universal in type of equity	258
Total(*)	7,279

(*) It is provided as a substitute securities for futures options trading subscriptions.

21. NET DEFINED BENEFIT LIABILITIES

(1) Actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

Description	December 31, 2016	December 31, 2015
Discount rate	1.98% ~ 2.10%	2.10% ~ 2.40%
Expected salary increase rate	8.00% ~ 10.00%	10.00%

(2) The amounts recognized in the consolidated statements of financial position related to net defined benefit liabilities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	2,130	2,091
Fair value of plan assets	(1,611)	(1,688)
Net defined benefit liabilities	519	403

(3) Changes in net defined benefit liabilities (assets) for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Description	Present value of defined benefit obligations	Plan assets	Total
Beginning	2,091	(1,688)	403
Current service cost	898	—	898
Interest expense (income)	40	(27)	13
Subtotal	3,029	(1,715)	1,314
Remeasurement elements	28	22	50
Return on plan assets (excluded from the above interest income)	—	(13)	(13)
Subtotal	3,057	(1,706)	1,351
Contributions by employer	—	(743)	(743)
Benefits paid	(1,001)	932	(69)
Transfer in (out)	74	(94)	(20)
Ending balance	2,130	(1,611)	519

December 31, 2015

Description	Present value of defined benefit liabilities	Plan assets	Total
Beginning	2,634	(2,129)	505
Current service cost	973	—	973
Interest expense (income)	44	(45)	(1)
Subtotal	3,651	(2,174)	1,477
Remeasurement elements	(279)	34	(245)
Return on plan assets (excluded from the above interest income)	—	(13)	(13)
Subtotal	3,372	(2,153)	1,219
Contributions by employer	—	(572)	(572)
Benefits paid	(1,129)	992	(137)
Transfer in (out)	(152)	45	(107)
Ending balance	2,091	(1,688)	403

Business expenses and investment administrative expenses included in the statement of comprehensive income are KRW 700 million and KRW 197 million (prior year: KRW 787 million and KRW 172 million) respectively. Revenues from plan assets during the years ended December 31, 2016 and 2015 are KRW 22 million and KRW 30 million, respectively

(4) Portfolio of the plan assets as of December 31, 2016 and 2015, is as follows (In millions of Korean won).

Description	December 31, 2016	December 31, 2015
Principal-and-interest-guaranteed financial instruments and etc.	1,611	1,688

(5) The following tables describe the effects on the defined benefit obligations if significant actuarial assumptions are changed within the reasonable and possible scope, assuming that all other assumptions remain unchanged as of December 31 2016 (in millions of Korean won).

December 31, 2016

Description	1% Up	1% Down
Changes in discount rate	2,050	2,217
Changes in expected salary increase rate	2,210	2,055

December 31, 2015

Description	1% Up	1% Down
Changes in discount rate	2,001	2,190
Changes in expected salary increase rate	2,182	2,006

22. OTHER FINANCIAL LIABILITIES

Details of other financial liabilities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Insurance claims payables	194,563	235,617
Other payables	47,046	53,128
Accrued expenses	61,189	58,841
Deposits received	6,666	6,736
Guarantee deposits	44,308	43,153
(Present value discount)	(1,294)	(1,072)
Total	352,478	396,403

23. PROVISIONS

Changes in provisions for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Description	Beginning	Increase	Decrease	Ending
Provisions for restoration costs	7,411	2,186	(1,547)	8,050
Provisions for guarantee of debts	2,357	557	(13)	2,901
Total	9,768	2,743	(1,560)	10,951

December 31, 2015

Description	Beginning	Increase	Decrease	Ending
Provisions for restoration costs	5,514	3,011	(1,114)	7,411
Provisions for guarantee of debts	1,811	683	(137)	2,357
Total	7,325	3,694	(1,251)	9,768

24. OTHER LIABILITIES

Details of other liabilities as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Advance from customers	3,445	3,331
Unearned income	7,810	12,604
Unearned insurance premiums	246,404	277,570
Liabilities of the period of prescription(*1)	15,609	14,765
Provision for suicide, disaster and death liabilities(*2)	8,990	2,542
Provision for Incomplete sale(*3)	2,239	4,373
Other liabilities	67,975	70,450
Total	352,472	385,635

(*1) Estimated amount of future payments calculated as a liabilities of the period of prescription about the insurance reimbursement of the completion insurance contract.

(*2) Estimated amount of future payments about the payment of the insurance payment for the suicide accident death arrangement is calculated as suicide disaster death liabilities and there is a possibility that the amount of money will change in the future.

(*3) It includes amounts expected to be paid in the future for refunds due to Card Shurans incomplete sales and may be reversed due to the possibility of future payment.

25. CAPITAL STOCK AND OTHER PAID-IN CAPITAL

(1) Details of capital stock as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Number of shares authorized	50,000,000	50,000,000
Par value (won)	5,000Won	5,000Won
Number of shares issued	13,583,369	13,583,369
Capital stock	67,917	67,917

(2) Details of other paid-in capital as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Stock paid-in capital in excess of par value	80,429	80,429
Other capital surplus	17,990	18,009
Total	98,419	98,438

26. OTHER COMPONENTS OF EQUITY

Details of other components of equity as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Net change in fair value of AFS financial assets	36,168	136,485
Net change in fair value of HTM financial assets	303,348	192,270
Net change in fair value of derivatives for hedging	20,994	5,474
Other comprehensive income of separate accounts	8,073	16,472
Net change in property revaluation surplus(*)	52,962	52,155
Remeasurements of net defined benefit liabilities	595	592
Total	422,140	403,448

(*) Change in revaluation surplus of property and equipment at the end of the current and previous years is based on policy-holder ownership adjustments of the revaluation surplus on revaluation of property and equipment using the deemed cost at the date of adoption of K-IFRS (Note 18),

27. RETAINED EARNINGS

(1) Details of retained earnings as of December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Legal reserve	5,277	4,258
Reserve for business stabilization	17,501	17,501
Catastrophe reserve	2,322	2,321
Reserve for bad debts	36,340	36,340
Unappropriated retained earnings	764,991	720,763
Total	826,431	781,183

(2) Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate a minimum of 10% of annual cash dividends declared as a legal reserve until such reserve equals 50% of its capital stock issued. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(3) Reserve for Bad Debts

The Group accumulated the shortage as reserve for bad debts because the recognized allowance for doubtful accounts was less than the requirement in accordance with the Regulations on Supervision of Insurance Business. The reserve for bad debts and income after the bad debt reserve for the years ended December 31, 2016 and 2015, is as follows (in millions of Korean won).

Description	2016	2015
Net income attributable to owners of parent company	55,435	98,706
Bad debt reserve	(550)	(4,218)
Income after reserve(*)	54,885	94,488
Income per share after reserve(*)	4,041 won	6,956 won

(*) The amount is the income and income per share after reserve that the Company estimated reserve before considering the effect of deferred income tax and distribution of equity to policyholders.

28. GAINS (LOSSES) BY CATEGORY OF FINANCIAL INSTRUMENTS

Gains (losses) by category of financial instruments for the years ended December 31, 2016 and 2015, are as follows:

(1) Gains by category of financial instruments

December 31, 2016 (In millions of Korean won)

Account	Description	Interest income (Note)	Dividend income	Gains on disposal and valuation	Gains on exchange differences	Total
Cash and cash equivalents, deposit		28,446	—	—	5,738	34,184
Loans and receivables	Loans	383,215	—	10,852	12,180	406,247
	Receivables	—	—	—	2,955	2,955
Securities	Financial assets at FVTPL	23,920	3,698	23,749	3,347	54,714
	AFS financial assets	275,742	101,696	26,202	91,257	494,897
	HTM financial assets	195,595	—	72	78,155	273,822
Derivative instruments		—	—	69,372	—	69,372
Total		906,918	105,394	130,247	193,632	1,336,191

(Note) The difference between the interest income on the comprehensive income statement and the interest income is due to overdue premium interest.

December 31, 2015 (In millions of Korean won)

Account	Description	Interest income (Note)	Dividend income	Gains on disposal and valuation	Gains on exchange differences	Total
Cash, cash equivalents and deposits		43,416	—	—	21,529	64,945
Loans and Receivables	Loans	362,876	—	3,758	19,730	386,364
	Receivables	—	—	—	1,194	1,194
Securities	Financial assets at FVTPL	29,275	6,075	26,188	9,556	71,094
	AFS financial assets	280,822	77,291	61,946	127,072	547,131
	HTM financial assets	121,813	—	93	—	121,906
Derivative instruments		—	—	35,585	—	35,585
Total		838,202	83,366	127,570	179,081	1,228,219

(Note) The difference between the interest income on the statement of comprehensive income and this interest income is due to overdue premium interest.

(2) Losses by category of financial instruments

December 31, 2016 (In millions of Korean won)

Account	Description	Interest expenses	Bad debt expenses	Losses on sale and valuation	Losses on exchange differences	Totals
Cash, cash equivalents and deposits		—	—	—	10,777	10,777
Loans and receivables	Loans	—	10,595	25	63	10,683
	Receivables	—	3,888	—	2,528	6,416
Securities	Financial assets at FVTPL	—	—	14,071	389	14,460
	AFS financial assets	—	—	8,520	18,588	27,108
	HTM financial assets	—	—	21	13,196	13,217
Derivative instruments		—	—	211,562	—	211,562
Borrowing liabilities		25,286	—	—	—	25,286
Total		25,286	14,483	234,199	45,541	319,509

December 31, 2015 (In millions of Korean won)

Account	Description	Interest expenses	Bad debt expenses	Losses on sale and valuation	Impairment losses	Losses on exchange differences	Totals
Cash, cash equivalents and deposits		—	—	—	—	3,495	3,495
Loans and Receivables	Loans	—	6,331	—	—	—	6,331
	Receivables	—	15,094	—	—	355	15,449
Securities	Financial assets at FVTPL	—	—	20,799	—	—	20,799
	AFS financial assets	—	—	5,417	1,193	8,680	15,290
	HTM financial assets	—	—	68	—	—	68
Derivative instruments		—	—	190,230	—	—	190,230
Borrowing liabilities		24,058	—	—	—	—	24,058
Total		24,058	21,425	216,514	1,193	12,530	275,720

29. PREMIUM INCOME

Premium income for the years ended December 31, 2016 and 2015, is as follows (In millions of Korean won):

Description	Type of insurance	2016	2015
Individual	Endowment, term, mixed insurance	7,602,798	7,564,613
	General insurance	143,956	136,001
	Car insurance	241,491	274,964
	Subtotal	7,988,245	7,975,578
Group	Group insurance	5,152	5,785
Total		7,993,397	7,981,363

30. REINSURANCE INCOME AND EXPENSES

Reinsurance income and expenses for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Description	Type	Reinsurance premium income (expense)	Reinsurance claims received (paid)	Reinsurance commission income (expense)	Changes in reinsurance assets	Total
Reinsurance income	Individual	—	585,454	25,115	10,374	620,943
	Group	—	—	—	—	—
Total		—	585,454	25,115	10,374	620,943
Reinsurance expenses	Individual	602,959	—	—	—	602,959
	Group	—	—	—	—	—
Total		602,959	—	—	—	602,959

December 31, 2015

Description	Type	Reinsurance premium income (expense)	Reinsurance claims received (paid)	Reinsurance commission income (expense)	Changes in reinsurance assets	Total
Reinsurance income	Individual	—	565,883	24,888	—	590,771
	Group	—	—	—	—	—
Total		—	565,883	24,888	—	590,771
Reinsurance expenses	Individual	580,966	—	450	6,983	588,399
	Group	—	—	—	—	—
Total		580,966	—	450	6,983	588,399

31. OTHER OPERATING INCOME

Other income for the years ended December 31, 2016 and 2015, is as follows (In millions of Korean won):

Description	2016	2015
Commission income	8,469	14,013
Dividend income	105,394	83,366
Rental income	28,899	30,465
Other	5,641	11,787
Total	148,403	139,631

32. CLAIMS PAID

Claims paid for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	2016	2015
Benefit payments	1,397,131	1,346,190
Refunds	2,772,694	2,330,133
Dividend expenses	10,366	7,602
Total	4,180,191	3,683,925

33. COMPENSATION RECEIVABLES

Compensation receivables for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

December 31, 2016

Description	General	Long-term	Vehicle	Total
beginning	798	750	2,500	4,048
Increase (decrease)	(229)	153	(427)	(503)
Ending	569	903	2,073	3,545

December 31, 2015

Description	General	Long-term	Vehicle	Total
beginning	582	322	2,974	3,878
Increase (decrease)	216	428	(474)	170
Ending	798	750	2,500	4,048

34. BUSINESS EXPENSES

Business expenses for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	Detail	2016	2015
Acquisition costs	Proportional allowance	330,515	355,696
	Store operating costs	27,676	29,350
	Sales promotion expenses	65,250	59,420
	Other	334,685	344,985
	Subtotal	758,126	789,451
	Deferred policy acquisition costs	(534,165)	(598,589)
	Total	223,961	190,862
Administration expenses	Salaries and wages	80,032	79,492
	Severance benefits	7,117	7,284
	Employee benefits	11,401	10,464
	Rent	19,223	17,555
	Computing	21,170	21,228
	Communication expenses	7,501	8,059
	Others	244,583	226,677
	Subtotal	391,027	370,759
	Total	614,988	561,621

35. CLAIM ADJUSTMENT EXPENSES

Claim adjustment expenses for the years ended December 31, 2016 and 2015, are as follows (in millions of Korean won).

Description	2016	2015
Salaries and wages	18,066	17,793
Severance benefits	1,708	1,750
Employee benefits	2,346	2,339
Other salaries	138	140
Traveling expenses	1,019	1,083
Communication expenses	2,226	2,349
Water, light and heating expenses	54	66
Taxes and dues	931	902
Supplies	77	152
Meeting costs	49	41
Rent	1,634	1,764
Vehicle maintenance expenses	36	38
Insurance premium	274	285
Commission expenses	38,330	36,511
Computing	3,297	3,154
Depreciation	745	567
Others	2	3
Claim adjustment fee received	(14,341)	(14,456)
Total	56,591	54,481

36. INVESTMENT ADMINISTRATION EXPENSES

Investment administration expenses for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	2016	2015
Salaries and wages	7,109	6,750
Employee benefits	577	764
Communication expenses	353	440
Repairs expenses	1,096	1,088
Commission expenses	26,039	19,151
Others	15,130	13,950
Total	50,304	42,143

37. OTHER OPERATING EXPENSES

Other operating expenses for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	2016	2015
Depreciation of investment property	5,668	5,256
Amortization of intangible assets	12,942	12,138
Discount charge	139	71
Others	10,026	20,062
Total	28,775	37,527

38. INCOME TAX EXPENSE

(1) Income tax expense for the years ended December 31, 2016 and 2015, consists of the following (In millions of Korean won):

Description	2016	2015
① Income tax currently payable	8,513	17,258
② Changes in deferred income tax due to temporary differences	(4,263)	20,195
③ Income tax expense directly reflected in equity	(5,931)	(13,496)
④ Additional payments of income taxes	(6,746)	884
⑤ Income tax expense(①+②+③+④)	(8,427)	24,841

(2) The relation between accounting income and income tax expense for the years ended December 31, 2016 and 2015, is as follows (in millions of Korean won):

Description	2016	2015
Income before income tax	59,907	131,356
Income tax expense calculated at the current applicable tax rates	14,069	31,443
Adjustments		
Non-taxable income	(1,383)	(1,036)
Non-deductible expense	1,303	693
Additional payments of income taxes	(26,998)	884
Deferred tax for corporate income refund tax	(1,063)	1,230
Difference in preceding settlement	5,609	(8,618)
Tax rate difference	36	245
Income tax expense	(8,427)	24,841
Effective tax rate	—	18.91%

(3) Details of change in temporary differences and the deferred income tax assets (liabilities) as of the years ended December 31, 2016 and 2015, are as follows (in millions of Korean won):

December 31, 2016

Description	Beginning	Increase (decrease)	Ending
Fixed assets	127	—	127
Compensation receivables	(4,048)	503	(3,545)
Other assets	4,439	(1,893)	2,546
Other investment expenses	853	(263)	590
Short-term trading financial assets	(645)	(9,179)	(9,824)
AFS financial assets	(505,352)	(32,609)	(537,961)
Accrued income	(149,575)	(27,507)	(177,082)
Other payables	17,795	(714)	17,081
Accrued expenses	25,117	5,157	30,274
Accrued dividend	(13,287)	(1,610)	(14,897)
Guaranteed variable	(1,723)	197	(1,526)
Provisions for restoration costs	7,411	638	8,049
Plan assets	(1,360)	95	(1,265)
Prepaid expenses	(834)	267	(567)
Unearned Income	992	142	1,134
Income dividend	3	—	3
Advanced depreciation provision	(342)	—	(342)
Gains (losses) on foreign currency translation	(1,469)	1,469	—
Securities	13,603	(4,890)	8,713
Property and equipment	(41,784)	(128)	(41,912)
Deferred subsidiary earnings for loan	(9,675)	(268)	(9,943)
Deferred acquisition cost	13,706	(2,834)	10,872
Interest income	114	—	114
Rent facilities	(3,067)	441	(2,626)
Miscellaneous losses	14,765	843	15,608
Reserves	72,830	14,405	87,235
Land	(68,445)	(1,059)	(69,504)
Separate account	(17,552)	11,558	(5,994)
Derivatives	(25,441)	(14,852)	(40,293)
Provision for sales warrant	2,357	545	2,902
Present value discount	9,489	(2,319)	7,170
Defined benefit liabilities	1,785	34	1,819
Reserve for loss of dividend contract	6,240	3,936	10,176
Membership	(6,176)	1,714	(4,462)
Partnership taxation exemption	(495)	2,223	1,728
Reserve of suicide, accident and death	2,722	6,268	8,990
Underestimation of intangible assets	1,818	(917)	901
Provision of incomplete sales	4,374	(2,135)	2,239
Catastrophe reserve	(2,322)	(2,080)	(4,402)
Others	—	5	5
Temporary difference subtotal	(653,052)	(54,817)	(707,869)
Tax rate	23.9%		23.9%
Subtotal deferred tax assets (liabilities) for temporary differences	(156,098)	(13,153)	(169,251)
Deferred tax on unused tax deficit	6,593	17,416	24,009
Deferred income tax assets (liabilities) Total	(149,505)	4,263	(145,242)

December 31, 2015

Description	Beginning of year	Increase (decrease)	End of year
Fixed assets	127	—	127
Compensation receivables	(3,878)	(170)	(4,048)
Other assets	4,270	169	4,439
Other investment expenses	1,796	(943)	853
Short-term trading financial assets	(5,245)	4,600	(645)
AFS financial assets	(438,186)	(67,165)	(505,351)
Accrued income	(146,291)	(3,284)	(149,575)
Other payables	13,936	3,859	17,795
Accrued expenses	35,665	(10,548)	25,117
Accrued dividend	(12,900)	(388)	(13,288)
Guaranteed variable	(1,495)	(228)	(1,723)
Provisions for restoration costs	5,515	1,897	7,412
Plan assets	(1,378)	18	(1,360)
Prepaid expenses	(1,233)	399	(834)
Unearned income	1,113	(121)	992
Income dividend	3	—	3
Advanced depreciation provision	(342)	—	(342)
Gains (losses) on foreign currency translation	(2,170)	700	(1,470)
Securities	15,109	(1,506)	13,603
Property and equipment	(41,618)	(167)	(41,785)
Deferred subsidiary earnings for loan	(14,528)	4,854	(9,674)
Deferred acquisition cost	20,015	(6,309)	13,706
Interest income	114	—	114
Rent facilities	(1,880)	(1,187)	(3,067)
Miscellaneous losses	15,096	(330)	14,766
Reserves	67,493	5,337	72,830
Land	(67,185)	(1,260)	(68,445)
Separate account	(12,179)	(5,373)	(17,552)
Derivatives	(20,702)	(4,738)	(25,440)
Provision for sales warrant	1,811	546	2,357
Present value discount	12,076	(2,587)	9,489
Defined benefit liabilities	2,038	(253)	1,785
Reserve for loss of dividend contract	4,106	2,134	6,240
Membership	(7,686)	1,509	(6,177)
Partnership taxation exemption	(507)	12	(495)
Reserve of suicide, accident and death	2,586	136	2,722
Underestimation of intangible assets	—	1,818	1,818
Provision of Incomplete sales	—	4,374	4,374
Catastrophe reserve	—	(2,322)	(2,322)
Temporary difference subtotal	(576,534)	(76,517)	(653,051)
Tax rate	23.9%		23.9%
Subtotal deferred tax assets (liabilities) for temporary differences	(137,809)	(18,289)	(156,098)
Deferred tax on unused tax deficit	8,499	(1,906)	6,593
Deferred income tax assets (liabilities) Total	(129,310)	(20,195)	(149,505)

(4) Details of deferred income taxes directly reflected to or deducted from equity as of the years ended December 31, 2016 and 2015, are as follows (in millions of Korean won):

Classification	December 31, 2016	December 31, 2015
Net change in fair value of AFS financial assets	6,949	56,562
Net change in fair value of HTM financial assets	(9,946)	(70,501)
Net change in fair value of cash flow hedges derivatives	(5,318)	1,208
Net change in property revaluation surplus	(252)	(300)
Other comprehensive income of separate accounts	2,623	(173)
Remeasurements of net defined benefit liabilities	13	(58)
Total	(5,931)	(13,262)

39. EARNINGS PER SHARE

Details of basic earnings per share for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	2016	2015
Net income of common stock (owner of parent company)	55,435	98,706
Weighted-average number of shares outstanding (Note 1)	13,583,369 Shares	13,583,369 Shares
Basic earnings per share (Note 2)	4,081 Won	7,267 Won

(Note 1) There is no change in capital during the current and previous periods and weighted average number of common shares outstanding is equal to the number of shares issued.

(Note 2) The Group has no dilutive potential ordinary shares, so the basic earnings per share and diluted earnings per share are the same.

40. NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won):

Description	2016	2015
Non-operating income		
Gain on disposal of property and equipment	84	5
Miscellaneous income	9,791	13,074
Total	9,875	13,079
Non-operating expenses		
Loss on disposal of property and equipment	809	32
Loss on disposal of investment property	—	1,849
Donations	3,803	5,024
Miscellaneous loss	14,333	7,072
Total	18,945	13,977

41. RELATED PARTY TRANSACTIONS

(1) Status of related parties of the Group for the years ended December 31, 2016 is as follows.

Description	Name of related party	
Ultimate controlling party	Lee Ho Jin	
Controlling stockholder	Lee Won Jun	Daehan Synthetic Fiber Co., Ltd.
	ILJU Academy and Culture Foundation	Lee Dong Jun
	Lee Tae Jun	Korea Book Promotion Co., Ltd.
	Lee Jung Ah	Lee Sung Ah
Investee party	Goryo Savings Bank Co., Ltd.	Yegaram Savings Bank Co., Ltd.
Other(*1)	Taekwang Industrial Co., Ltd.	Donglim Engineering & Construction Co., Ltd.
	ILJU Educational Foundation	Es-teem Co., Ltd.
	Sehwa Art and Culture Foundation	Mervin Co., Ltd.
	Seohan Moolsan Co., Ltd.	Daishin-Heungkuk 1 PEF
	Segwang Fashion Co., Ltd.	Heungkuk Asset Management Co., Ltd.
	Taekwang Synthetic Fiber (Changshu) Limited	Heungkuk Securities Co., Ltd
	Seohanzhigwan (Changshu) Limited	T-broad Dongdaemun Broadcasting Co., Ltd.
	Taekwang Industrial Co., Ltd. Gaesung	T-broad Nowon Broadcasting Co., Ltd.
	Woori Home Shopping Co., Ltd	Shopping & T Co., Ltd.
	Taekwang Tourist Development Co., Ltd.	KCT Co., Ltd
	Tsis Co., Ltd.	Champvision Co., Ltd.
	T-broad Co., Ltd.	Cable TV VOD Co., Ltd.
	KDMC Co., Ltd.	E-Channel Co., Ltd.
	IMM Private Equity, Inc.	Tcast Co., Ltd.
	Communix Co., Ltd.	J&T 1 PEF

(*1) Group is a member of Taekwang Industrial Group. Therefore, affiliated companies of the Group are all subsidiaries of the Group and affiliated companies are related parties

(2) Significant transactions with related parties of the Group for the years ended December 31, 2016 and 2015, are as follows (In millions of Korean won).

December 31, 2016

	Revenue			Expense		
Name of company	Premium revenues	Rental income	Other income	Commission expenses	Interest expenses	Other expenses
Taekwang Industrial Co., Ltd.	9,591	457	119	—	—	271
Heungkuk Asset Management Co., Ltd.	715	913	14	2,347	—	800
T-broad Co., Ltd.	6,981	2,497	104	—	—	242
KCT Co., Ltd	656	149	11	—	—	4,871
Tsis Co., Ltd.	8,128	551	143	73,972	—	49,353
Korea Book Promotion Co., Ltd.	247	122	24	4	—	13,009
Donglim Engineering & Construction Co., Ltd.	221	—	6	—	—	16,331
Sehwa Art and Culture Foundation	72	590	—	—	2,390	6
Woori Home Shopping Co., Ltd	2,602	—	—	2,513	—	2,413
Others	5,317	2,370	198	66	540	2,797
Total	34,530	7,649	619	78,902	2,930	90,093

December 31, 2015

	Revenue			Expense		
Name of Company	Insurance income	Rent income	Other income	Commission expense	Interest expense	Other expense
Taekwang Industrial Co., Ltd.	11,749	268	41	—	—	262
Heungkuk Asset Management Co., Ltd.	562	743	4	1,703	—	—
T-broad Co., Ltd.	4,875	2,696	63	—	—	458
KCT Co., Ltd	547	145	5	1	—	4,432
Tcast Co., Ltd.	576	1,292	5	—	—	120
Tsis Co., Ltd.	7,934	815	34	63,747	—	30,136
Korea Book Promotion Co., Ltd.	201	128	9	2	—	5,291
Donglim Engineering & Construction Co., Ltd.	114	1	2	—	—	15,114
Woori Home Shopping Co., Ltd	2,916	—	—	5,132	—	—
Others	4,054	1,569	26	2	1,350	1,895
Total	33,528	7,657	189	70,587	1,350	57,708

In addition to above transactions, the Group conducts insurance and contract loan transactions with employees and others under the normal terms and conditions.

(3) Balance of the receivables and payables is as of December 31, 2016 and 2015, as follows (In millions of Korean won):

December 31, 2016

	Receivables			Payables		
Name of company	Guarantee deposit(*2)	Receivables leasehold deposits	Other receivables	Bonds	Leasehold deposits received	Other payables
Taekwang Industrial Co., Ltd.	—	5	10	—	250	3,232
T-broad Co., Ltd.	—	210	—	—	1,895	452
Tsis Co., Ltd.	53,200	23,323	571	—	584	9,230
Taekwang Tourist Development Co., Ltd.	6,318	—	71	—	267	227
Korea Book Promotion Co., Ltd.	—	—	1	—	1,964	721
ILJU Academy and Culture Foundation	—	—	—	10,000	71	—
Sehwa Art and Culture Foundation	—	—	—	60,000	747	49
Others	—	322	10	—	2,414	1,309
Total	59,518	23,860	663	70,000	8,192	15,220

(*2) The face value of the deposit to be repaid at maturity for membership of the Group

December 31, 2015

	Receivables			Payables		
Name of company	Guarantee deposit(*2)	Receivables leasehold deposits	Other receivables	Bonds	Leasehold deposits received	Other payables
Taekwang Industrial Co., Ltd.	—	5	22	—	144	3,475
T-broad Co., Ltd.	—	210	5	—	1,885	530
Tsis Co., Ltd.	53,200	—	1	—	20	9,064
Taekwang Tourist Development Co., Ltd.	6,284	—	—	—	—	76
Korea Book Promotion Co., Ltd.	—	—	1	—	2,000	978
ILJU Academy and Culture Foundation	—	—	—	10,000	19	—
Sehwa Art and Culture Foundation	—	—	—	40,000	312	36
Others	—	1,073	4	—	2,382	1,091
Total	59,484	1,288	33	50,000	6,762	15,250

(*2) The face value of the deposit to be repaid at maturity for membership of the Group

(4) Transactions with related parties during the years ended December 31, 2016 and 2015 are as follows (In millions of Korean won):

December 31, 2016

Name of company	Borrowing transactions			
	Beginning	Borrowings	Repayment	Ending
Sehwa Art and Culture Foundation	40,000	20,000	—	60,000
ILJU Academy and Culture Foundation	10,000	—	—	10,000
Total	50,000	20,000	—	70,000

December 31, 2015

Name of company	Borrowing transactions			
	Beginning	Borrowings	Repayment	Ending
Sehwa Art and Culture Foundation	—	40,000	—	40,000
ILJU Academy and Culture Foundation	—	10,000	—	10,000
Total	—	50,000	—	50,000

(5) Compensation for major management for the years ended December 31, 2016 and 2015 is as follows (In millions of Korean won):

Description	December 31, 2016	December 31, 2015
Salaries and bonuses	5,649	4,333
Severance and retirement benefits	1,209	1,415
Total	6,858	5,748

42. CONTINGENCIES AND COMMITMENTS

(1) Pending litigations

The Group is suing 589 cases (claim amount: KRW 16,694 million won) and 437 cases (accused amount: KRW 35,130 million won) filed by the Group due to requested lawsuit for claim settlement as of the end of the reporting period.

(2) Reinsurance agreements

Group enters into reinsurance agreements with domestic and overseas reinsurance companies, such as Korean Reinsurance Company, ScorGlobal Life, and Gen Re, for some of the risks taken from policyholders, and the Group is exposed to risks that exceed Group's obligations. The Group determines whether it will acquire the Group and the terms of the acquisition about risk that domestic and foreign insurers take through reinsurance agreement. The Group and its subsidiaries provide reinsurance premium, ceded reinsurance claims recovered, and reinsurance commissions to each other for settlement insurance and reinsurance transactions under this agreement.

(3) Overdraft agreement

As of the end of the reporting period, the Group has entered into an overdraft agreement with KEB Hana Bank with a total limit of KRW 58 billion. In connection with this, government bonds with par value of KRW 60,000 million are pledged as collateral.

(4) Payment guarantee

As of the end of the reporting period, the Group is provided with a payment guarantee amounting to KRW 4,545 million in relation to deposit of litigation case from Seoul Guarantee Insurance Company.

43. CASH FLOW FROM OPERATING ACTIVITIES

(1) Cash flows from operating activities for the years ended December 31, 2016 and 2015, is as follows (In millions of Korean won):

Description	2016		2015	
1. Adjustments		3,176,649		3,703,405
<Addition of expenses of non-cash transactions>		4,502,240		4,908,236
Interest expenses	32,753		33,819	
Income tax expenses	(8,427)		24,841	
Provision for insurance contract liabilities	3,568,981		3,948,891	
Compensation loss	503		—	
Severance and retirement benefits	918		959	
Amortization of deferred acquisition costs	603,640		609,982	
Losses on valuation of financial assets FVTPL	4,726		17,503	
Losses on sales of AFS financial assets	8,520		5,417	
Impairment losses on AFS financial assets	—		1,193	
Losses on redemption of HTM financial assets	21		68	
Expenses of allowance for doubtful accounts	10,594		6,331	
Losses on foreign currency translation	14,754		7,376	
Depreciation	20,430		19,046	
Amortization of intangible assets	12,942		12,138	
Losses on valuations of derivatives	184,944		163,466	
Losses on derivatives transactions	26,618		26,764	
Losses on disposition of property and equipment	809		32	
Losses on disposition of investment properties	—		1,849	
Other expenses	19,514		28,561	
<Deduction of revenues of non-cash transactions>		(1,325,591)		(1,204,831)
Interest income	(907,801)		(839,242)	
Dividend income	(105,394)		(83,366)	
Compensation income	—		(170)	
Change of reinsurance assets	(10,374)		—	
Gains on valuation of FVTPL financial assets	(5,352)		(6,873)	
Gains on disposition of AFS financial assets	(26,201)		(61,946)	
Gains on redemption of HTM financial assets	(72)		(93)	
Gains on foreign currency translation	(179,211)		(171,290)	
Gains on valuations of derivatives	(21,253)		(13,429)	
Gains on derivatives transactions	(48,119)		(22,157)	
Gains on disposition of property and equipment	(84)		(5)	
Other income	(21,730)		(6,260)	
2. Changes in assets and liabilities from operating activities		(19,207)		(1,372,889)
Decrease in deposits	648,975		137,243	
Decrease in financial assets at FVTPL	491,564		40,969	
Increase in loans	(510,720)		(1,174,634)	
Increase in insurance receivables	(22,226)		(58,812)	
Increase in receivables	(8,720)		(16,754)	

Description	2016	2015
Decrease in accrued revenues	1,691	429
Decrease in prepaid expenses	391	1,434
Increase in advance payments	(8,010)	(177)
Increase in separate account assets	(205,172)	(240,666)
Payments of retirement allowance	(1,113)	(974)
Decrease in plan assets	267	159
Increase (decrease) in unpaid claims	(41,055)	68,916
Decrease in other payables	(5,989)	(12,661)
Increase(Decrease) in accrued expenses	2,471	(6,431)
Decrease in deposits received	(71)	(76)
Decrease in leasehold deposits received	(4,340)	(6,292)
Increase in advance from customers	114	2,051
Decrease in unearned income	(4,918)	(1,601)
Increase (decrease) in unearned insurance premium	(31,166)	165,222
Decrease in provisions for guarantee of debts	(11)	(137)
Decrease in provisions for restoration costs	(278)	(79)
Increase in separate account liabilities	213,274	328,571
Increase in deferred acquisition costs	(534,165)	(598,589)

(2) Significant non-cash transactions for the years ended December 31, 2016 and 2015 are as follows (In millions of Korean won):

Description	2016	2015
Transfer between property and equipment, and investment properties	6,900	14,209
Transfer from AFS financial assets to HTM financial assets	2,867,457	3,289,844
Transfer from advance payments to intangible assets	779	555

44. RISK MANAGEMENT

I. Life Insurance

(1) Summary of risk management

1) Matters concerning the overall system, including risk management policy, strategy and procedure.

① Policy

Risk management policy of the life insurance segment aims to reinforce its value by preventing and systematically managing potential risks that may arise in the course of business. As part of this effort, the life insurance segment established and is implementing regulations and management structure following establishing risk management principles in relation to the life insurance business.

② Strategy

Risk types are classified into insurance risk, interest rate risk, credit risk, market risk, liquidity risk, operational risk and others, and the life insurance segment performs risk management through procedures that are recognition, measurement, management and feedback of risks. The life insurance segment measures risks by using empirical statistic data or model analysis for each risk category; sets an acceptable limit and operational guidelines; monitors continuously; and establishes countermeasures to mitigate those risks.

③ Procedure

A) Risk recognition

Insurance, interest rate, credit, market, operating and liquidity risks that may arise from insurance business activities are classified as important risks.

B) Risk measurement/ assessment

Basically, Group measures and manages the risks of RBC standards and Liquidity risk is measured and monitored periodically to determine whether the liquidity risk ratio is appropriate.

C) Risk controls

Group sets an appropriate level of risk limits and monitor them at all times. The Group takes appropriate measures such as reporting to the Risk Management Committee and establishing countermeasures when symptom is detected.

2) Matters concerning internal capital adequacy evaluation and management procedures Group calculates the RBC ratio, which is an indicator of financial quality. Supervisory authorities are required to maintain an RBC ratio of 100% or more. If the RBC ratio is less than 100%, the Group prevents any further intensifying insolvent through prompt corrective actions.

Solvency ratio	Prompt corrective actions
Recommendation for improvement of business management (100% ~ 50%)	Requirement to increase in equity capital, New business restrictions, etc.
Required improvement of management (50% ~ 0%)	Request to change executive, Subsidiary organization, etc.
Management improvement order (Under 0%)	Suspension of executive's functions, Suspension of insurance business, and others

3) Structure and function of risk management organization

① Risk Management Committee

Risk Management Committee is the highest decision-making body on risk management and decide on the basic policy of risk management and risk tolerance in accordance with management strategy under authority of board of directors.

② Risk Management Practice Organization

The life insurance segment runs the Risk Management team that is an exclusive team for risk management to assist the Risk Management committee and implement risk management functions. The Risk Management team performs the following functions:

A) Matters concerning operation of the Risk Management Committee

B) Design and process management of risk management strategy

C) Management of risk management standards and related bylaws

D) Development and operation of risk management measurement system

E) Setting and management Indicators, goals, and, limits for risk management

F) Establishment of risk capital management system and evaluation of capital adequacy, etc.

4) Activity for establishing risk management system

① Risk Management Regulatory Framework

Group's risk management regulations consist of risk management standards, risk management committee regulations, and related bylaws. The Group regulates and manages overall risk management tasks such as risk management organization, risk management strategy and framework, risk measurement, reporting and control, limit management, and crisis situation analysis.

② Management of limit set-up

Group regulates and operates consideration, drafting of complete charge departments, consultation of related departments, and deliberation of the Risk Management Committee etc. when establishing the allowable limits for clause in relation to risk limit management of risk management standards. Each year, the group establishes a risk-tolerance limit considering annual business plan and asset management plan, and regularly analyzes and reports capital adequacy.

③ Establishment and Improvement of operation for risk management system

Group builds or operates a risk measurement management system for each market, interest rate and credit risk. The contents are as follows.

Description	Construction methodology	Construction Completed date	Measurement method
Market Risk	Historical VaR	May 16	Market VaR, Stress Test, Sensitivity analysis, etc.
Interest Rate Risk	Monte Carlo Simulation	October 10	VaR, EC, Stress Test Sensitivity analysis, etc.
Credit Risk	K-function, MTM model	May 16	RWA, EC, Stress Test, Sensitivity analysis ,etc.

5) Matters concerning calculation of solvency ratio for consolidated basis

① Consolidated Baseline Solvency Ratio Overview

The RBC system is an insurance system that allows insurance companies to retain their own capital to cover unexpected losses and it is a system that can judge the adequacy of capital of an insurance company. However, there was a limit to reflect the risks exposed to subsidiaries since the existing RBC system generates various risks based on separate financial statements.

Consolidated basis solvency ratio system was introduced in October for reflecting this and the Group calculates consolidated basis solvency ratio based on consolidated financial statements reflecting liabilities and capital and it reflects the capital and risk of the entire insurance group.

② Method of Calculation for Consolidated Baseline Solvency Ratio

It calculate solvency ratio based on consolidated financial statements (RBC consolidated financial statements) including parent company and domestic subsidiary insurance companies. Subsidiaries and affiliates not included in the scope of consolidation are calculated based on the application of the equity method.

③ Description in relation to Consolidation

The Group's consolidated financial statements are subject to Heungkuk Fire&Marine Insurance Co., Ltd., subsidiary with share ratio of 59.96%. Other consolidation targets include indirect investment instruments with a share ratio greater than 50%.

(2) Insurance Risk Management

1) Concept and Risk

① Concept

Insurance risk is the risk associated with the insurance company's inherent business of insurance contracts and claim settlement. It refers to the possibility of loss that may arise from the actual payment risk rather than the expected risk and it could be divided into insurance price risk and reserve risk.

A) Insurance price risk is possibility of loss due to difference in the actual risk rate against expected among the planned base rates applied when calculating insurance premiums (loss ratio). Reserve risk is possibility of a loss due to a difference between reserve for outstanding claims and future actual insurance payment.

B) Reserve risk is possibility of a loss due to a difference between reserve for outstanding claims and future actual insurance payment. Reserve for outstanding claims is small since life insurance is mostly a form of fixed benefit payment. Group does not calculate reverse risk because period of claim settlement is not long and benefit of reserve risk measurement is small.

② Status of Insurance Risk

Details of insurance risk exposures and the risk amounts at the end of the current and previous year are as follows (In millions of Korean won):

	December 31, 2016		December 31, 2015	
Description	Exposure	Insurance price risk	Exposure	Insurance price risk
Death	107,500	18,215	100,842	17,090
Disability	4,294	3,570	5,750	5,580
Hospitalization	39,584	13,888	36,172	13,452
Surgery and diagnosis	136,315	79,030	123,743	75,116
Medical expenses	17,402	3,611	11,456	1,785
Other	41,759	20,576	36,819	16,226
Total	346,853	138,889	314,783	129,250
- Before application of the reinsurance ratio		138,889		129,250
- Retention rate (%)		93.46%		89.12%

(*) Based on K-IFRS separate financial statements

In the case of consolidated basis insurance risk, it is calculated as an integrated insurance price risk (reflecting correlation) and reserve risk of life insurance and indemnity insurance. Details of exposure and risk amounts are as follows (In millions of Korean won):

Description		December 31, 2016		December 31, 2015	
		Exposure	Insurance price risk amount	Exposure	Insurance price risk amount
A. Insurance price risk	I. Life insurance	346,853	138,889	314,783	129,250
	① Death	107,500	18,215	100,842	17,090
	② Disability	4,294	3,570	5,750	5,580
	③ Hospitalization	39,584	13,888	36,172	13,452
	④ Surgery and diagnosis	136,315	79,030	123,743	75,116
	⑤ Medical expenses	17,402	3,611	11,456	1,785
	⑥ Other	41,759	20,576	36,819	16,226
	II. Long-term indemnity insurance	432,212	168,805	—	—
	III. General insurance	63,917	16,078	—	—
	IV. Vehicle insurance	174,255	33,575	—	—
	Sub total	1,017,237	272,799	314,783	129,250
B. Reserve risk	I. General insurance	34,693	10,589	—	—
	II. Vehicle insurance	62,412	12,513	—	—
	Sub total	97,105	20,030	—	—
	Total	1,114,342	273,533	314,783	129,250

(*) With introduction of RBC in October 2016, the accompanying consolidated financial statements have been prepared in accordance with K-IFRS standards and are based on K-IFRS separate financial statements.

2) Measurement (recognition) and Management Method

① Measurement Method

Insurance risk is calculated by taking the retention rate into consideration after multiplying discrimination of insurance coverage exposures by risk factor and summing of them.

② Management Method

Groups manages the profit / loss risk ratio by product, collateral, and sales channel through periodic monitoring. In addition, when new products are released, risk factors are appropriately identified by checking risk rate adequacy, profitability of collateral for base and special contract, and underwriting.

3) Reinsurance Policy

Group manages reinsurance for improving ability to pay claims as concerned risk exposure level and effective diversification of risks. Details of concentration level to top five reinsurers as of December 31, 2016, is as follows: (In millions of Korean won)

Description	Top 5 Reinsurers			
	More than AA-	A+ ~ A-	Below BBB+	Other
Reinsurance premiums ceded	22,436	—	—	—
Importance	92.47%	—	—	—

Details of reinsurance premium ceded for reinsurer category as of the end of the reporting period, is as follows (In millions of Korean won):

Description	More than AA-	A+ ~ A-	Below BBB+	Other	Total
Reinsurance premiums ceded	24,264	—	—	—	24,264
Importance	100%	—	—	—	100%

(3) Interest Rate Risk Management

1) Concept and Risk Amount

① Concept

Insurance risk refers to the risk related to underwrite of insurance contracts and claim payments where there is a possibility of loss if the actual payment is bigger than expected. Insurance risk can be divided into insurance price risk and reserve risk.

② Interest rate risk

The amount of risk and exposure of interest earning assets and interest bearing liabilities of the life insurance segment as of December 31, 2016 and 2015 are as follows:

Description	December 31, 2016		December 31, 2015	
Description	Exposure(*)	Interest rate sensitive amount	Exposure(*)	Interest rate sensitive amount
A. Interest rate assets	19,854,671	137,531,135	17,644,741	100,330,692
I. Deposits	581,903	2,109,097	1,086,262	6,310,668
II. Securities designated at FVTPL	142,692	343,827	476,775	843,837
III. AFS financial assets	7,103,112	36,984,621	7,067,992	35,596,807
IV. HTM financial assets	6,330,799	73,966,215	3,331,258	35,767,543
V. Loans	5,696,165	24,127,376	5,682,454	21,811,837
B. Interest rate liabilities	19,060,833	116,413,885	16,691,822	91,088,463
I. Fixed interest rate	4,883,265	51,000,874	4,669,775	48,644,069
II Floating interest rate	14,177,569	65,413,011	12,022,047	42,444,394
Interest rate risk amount		564,152		377,490
- Coefficient of variation for interest rate (%)		1.85%		1.85%

(*) Based on K-IFRS separate financial statements

Floating rate-type liabilities for minimum-guaranteed interest rate level (In millions of Korean won)

Description	Less than 0%(*)	Excess 0% Less than 2%	Excess 2% Less than 3%	Excess 3% Less than 4%	Excess 4%	Total
Main contract	102,550	2,083,152	5,415,410	6,113,332	22,382	13,736,827
Special contract	—	—	482	398,153	42,106	440,741
Total	102,550	2,083,152	5,415,892	6,511,485	64,488	14,177,569

(*) Reserve without a minimum guarantee option is shown as “0% or less.”

2) Measurement (recognition) and Management Method

① Measurement Method

The interest rate risk amount for difference between change in value of assets and liabilities due to interest rate fluctuation is calculated as follows.

A) interest rate risk amount = max(|Assets interest rate sensitive amount - Liabilities interest rate sensitive amount| × Coefficient of variation for interest rate, Minimum interest rate risk amount) + Interest rate reverse margin risk amount

B) Asset interest rate sensitive amount and liabilities interest rate sensitive amount is multiplied target exposure by the interest rate sensitivity.

C) Interest rate sensitivity of interest rate liabilities is calculated by setting different coefficients according to the types of insurance products (savings / protection / annuity) and interest rate fixing (interest rate fixed / floating rate),

D) Interest rate sensitivity of interest rate assets is based on durations provided by bond rating agencies, asset management companies, or consigned companies.

② Management Method

Group manages profit and loss of interest rate by applying planned interest rate and the declared interest rate considering market interest rate, and raising rate of return such as expansion of low-risk long-term bonds and overseas investment.

A) The disclosure rate is determined by Rate Management Committee on a monthly basis in accordance with guidelines established by Risk Management Committee.

B) In addition, Group continuously manages expanding asset duration through long-term investment and reducing duration of liability through restructuring reserves structure (Expand sales of floating product) to reduce asset and liability duration gaps

(4) Credit Management Risk

1) Concept and Risk Amount

① Concept

Credit risk represents the risk of loss on asset portfolio as a result of a credit event, such as debt restructuring, default, or bankruptcy. Such credit risk can be categorized into expected and unexpected losses. Incurred loss is expected amount of loss based on default and recovery rate and it is managed through allowance for bad debts. Unexpected loss is the volatility of loss from credit risk, and it is managed through capital.

② Status of Credit Risk Amount

The credit risks are measured for assets such as deposits, loans, securities, and real estate, and Over-the-counter derivatives transactions. Details of and credit risk amount as of the end of the reporting period is as follows (In millions of Korean won):

Description		2016		2015	
		Exposure(*1)	Amount of credit risk(*2)	Exposure(*1)	Amount of credit risk(*2)
I. Operating assets (working capital)	Cash and deposits	581,908	13,594	1,086,267	17,805
	Loans	5,677,609	118,133	5,695,777	110,144
	Securities	14,070,269	296,499	11,376,627	236,625
	Real estate	755,738	60,815	753,502	50,603
	Sub total	21,085,524	489,041	18,912,173	415,177
II. Non-operating assets	Reinsurance assets	8,007	175	10,882	236
	Other	343,892	9,274	297,328	7,958
	Sub total	351,899	9,449	308,210	8,194
III. Over-the-counter derivatives transactions		519,316	3,479	447,524	3,249
IV. Marginal agreement amount(*)		164,750	11,017	—	—
Total (I+II+III+IV)		22,121,489	512,954	19,667,907	426,597

(*1) Based on K-IFRS separate financial statements

(*2) The Group has reflected marginal agreement credit risk amount in accordance with strengthening the system in December 2016

2) Measurement (recognition) and Management Method

① Measurement Method

Credit risk are measured by applying credit risk factors based on credit status, such as the type of asset, the type of collateral / guarantee and credit rating of borrower.

② Management Method

A) Credit exposure limit is managed by sector / group. In case of limit by sector, the Group sets the limit based on sector rating, market capitalization, and scale issue of bond. They manage limit with average credit rating and total assets for mutual investment restriction company. These credit exposure limit is regularly monitored and investments are made in consideration of runout rates

B) Credit review is being conducted to monitor companies that may have problems with liquidity by periodically checking credit rating and financial structure change of company after transaction of credit exposure.

C) The Group defines the criteria for classification of asset quality in light of the borrower's credit rating, ability to repay, and delay period and reflects the criteria appropriate estimated losses as a provision through asset soundness management. Bankruptcy of the borrower is in preparation for credit risk that could be a significant risk for the moment through write off asset that are deemed unrecoverable.

3) Status of Credit Rating Exposure

① Bond (In millions of Korean won)

Description	Exposure by credit rating							
	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	Under BBB-	No rating	Other(*)	Total
Government and public Bonds	2,114,355	—	—	—	—	—	—	2,114,355
Other Public Bonds	1,403,191	882,553	31,199	—	—	—	163,966	2,480,909
Finance debentures	—	50,000	679,743	10,009	—	—	153,539	893,290
Corporate bonds	357,084	712,673	982,728	89,831	—	—	510,296	2,652,611
Overseas securities (bonds)	620,511	1,993,149	516,342	—	—	—	213,550	3,343,552
Total	4,495,142	3,638,375	2,210,012	99,840	—	—	1,041,350	11,484,717

(*) Other: Contingent convertible bond (hybrid bond or CoCo bond)

② Loans (In millions of Korean won)

Description	Exposure by credit rating							
	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	Under BBB-	No rating	Other	Total
Call loans, unsecured loans, discounted note loans, loan secured by third party guarantees	1,043,171	116,226	142,293	14,684	—	494,232	303,794	2,114,400
Loan secured by real estate	—	49,991	—	10,300	—	122,119	1,276,987	1,459,397
Policy loans	—	—	—	—	—	—	1,179,861	1,179,861
Other loans	450,193	40,971	329,120	103,668	—	—	—	923,951
Total	1,493,364	207,188	471,413	128,652	—	616,351	2,760,643	5,677,609

③ Reinsurance Assets (In millions of Korean won)

Description		Exposure by credit rating				
		Over AA-	A+ ~ A-	Under BBB+	Other	Total
Domestic	Accounts receivable reinsurance	24,504	—	—	—	24,504
	unearned Premium reserve for reinsurance ceded	24,143	—	—	—	24,144
	Reserve for outstanding claims for reinsurance ceded	19,725	—	—	—	19,725
Overseas	Accounts receivable reinsurance	32,294	—	—	—	32,294
	Unearned premium Reserve for reinsurance ceded	9,419	—	—	—	9,419
	Reserve for outstanding Claims for reinsurance ceded	26,781	—	—	—	26,781

④ Derivatives (In millions of Korean won)

Description	Exposure by credit rating: Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	Under BBB-	No rating	Total
Interest rate	3,002	1,212	173	—	—	—	4,387
Stock	71,257	33,443	5,118	—	—	—	109,818
Foreign currency	—	—	4,702	—	—	1,878	6,579
Credit	223,601	163,438	—	11,492	—	—	398,532
Other	—	—	—	—	—	—	—
Total	297,860	198,094	9,992	11,492	—	1,878	519,316

4) Degree of industrial concentration

① Bond (In millions of Korean won)

Description	Degree of industrial concentration: Financial / insurance business	Electricity / gas / steam / water business	National and public Institutions	Manufacturing industry	Real estate and leasing business	Other	Total
Domestic bonds	1,391,543	778,620	4,298,335	660,103	511,264	501,300	8,141,166

② Loans (In millions of Korean won)

Description	Degree of Industrial Concentration: Real estate and leasing business	Financial / insurance business	Retail / transportation / accommodation and restaurants	Electricity / gas / steam / water business	Public social and personal services	Other	Total
Policy loans	—	—	—	—	—	1,179,861	1,179,861
Others	645,402	933,382	419,043	345,964	159,057	1,994,900	4,497,748
Total	645,402	933,382	419,043	345,964	159,057	3,174,761	5,677,609

(5) Market Risk Management

1) Concept and Exposure

① Concept

Market risk refers to general market risk and variable insurance risk.

A) General market risk is a risk of loss to insurance company due to changes in market indicators such as stock price, interest rate, exchange rate, etc. Major assets by market risk factor are as follows:

Risk Factor	Assets	Risk
Stock price	Stocks	Decrease in present value of holdings due to decrease stock price
Interest rate	Bonds	Decrease in value of holdings due to increase interest rate
Exchange rate	Foreign currency assets	Decrease in value of foreign currency assets by dropping exchange rate when converting to won

B) Variable insurance guarantee risk is the difference between underlying asset price and guarantee amount if the underlying asset price is below minimum guaranteed amount.

② Status of Market Risk

Details of status of exposure by market risk as of the end of the reporting period, is as follows: (In millions of Korean won)

Description		December 31, 2016		December 31, 2015	
		Exposure	Market risk	Exposure	Market risk
I. General market risk	Trading securities	637,678	7,340	636,639	4,678
	Foreign assets/liabilities	3,669,057	293,525	2,406,614	192,529
	Derivatives transactions	(3,704,070)	(285,198)	(2,264,747)	(175,665)
	Sub total	602,665	15,667	778,506	21,542
II. Guarantee risk of variable insurance	Variable whole life insurance	41,776	—	39,269	—
	Variable annuity life insurance	816,666	34,102	885,524	45,811
	Variable universal indemnity life insurance	158,481	—	140,139	—
	Variable universal saving life insurance	302,144	28	345,247	28
	Sub total	1,319,067	34,130	1,410,179	45,839
Total (I+II)		1,921,732	49,797	2,188,685	67,381

(*) Based on K-IFRS separate financial statements

③ Status of Variable Insurance Guarantee Risk

Details of variable insurance guarantee risk as of the end of the reporting period, are as follows (In millions of Korean won):

Description	Premium Income	Policyholder reserves	Guarantee reserves	Minimum guarantee risk
Variable whole life insurance	4,939	41,776	10,484	—
Variable annuity life insurance	75,741	816,666	10,937	34,102
Variable universal indemnity life insurance	53,830	158,481	50,393	—
Variable universal saving life insurance	54,962	302,144	18	28
Total	189,472	1,319,067	71,832	34,130

2) Measurement (recognition) and Management Method

① Measurement Method

Measurement of market risk measures general market risk and variable insurance minimum risk. General market risk is measured by multiplying each market risk coefficient by the stock price / interest rate / exchange rate / volatility risk of product. Variable insurance guarantee risk is measured based on standard of computation reflecting characteristics of each guarantee option.

② Management Method

Group sets limit of market risk for market risk management and regularly monitors compliance. Group has established a management plan and responded to it when limit is exceeded.

3) Results of Sensitivity Analysis (In millions of Korean won)

Description	Effect of profit and loss(*)	Effect of capital(*)
(Exchange rate) Won / dollar exchange rate increase of 100 won	3,737	—
(Exchange rate) Won / dollar exchange rate decrease of 100 won	(3,737)	—
(Interest rate) Increase of interest rate 100bp	(3,460)	3,534
(Interest rate) Decrease of interest rate 100bp	3,460	(3,534)
(Stock price) 10% increase in stock index	104	—
(Stock price) 10% decrease in stock index	(104)	—

(*) Sensitivity analysis is limited to market risk exposures.

(6) Liquidity Risk Management

1) Concept and Status of Liquidity Gap

① Concept

Liquidity risk refers to risk of loss due to facing insolvency for temporary shortage of funds, procurement of high interest rate funds to resolve shortage of funds, and disposal of securities.

② Status of Liquidity Gap (In millions of Korean won)

Description		Less than 3 Months	More than 3 months ~less than 6 months	More than 6 months ~ less than 1 year	Total
Assets (A)	Cash and deposits	321,408	—	554	321,962
	Securities	848,702	245,719	302,566	1,396,987
	Loans	105,670	47,186	58,546	211,401
	Others	14,230	315	586	15,131
	Total assets	1,290,010	293,221	362,251	1,945,482
Liabilities (B)	Policy reserve(*)	63,492	60,428	50,702	174,622
	Total liabilities	63,492	60,428	50,702	174,622
Liquidity gap (A-B)		1,226,517	232,793	311,550	1,770,860

(*) Policy reserve is based on the surrender type reserve.

2) Measurement (recognition) and Management Method

A) The life insurance segment manages the liquidity risk through a liquidity ratio management.

The liquidity ratio is an indicator to assess adequacy of current assets held, which is the ratio of the current assets that matures in less than 3 months to an average claim paid per quarter for the last 1 year. The life insurance segment maintains the liquidity ratio at a stable level.

B) In addition, the life insurance segment classifies assets by ability to securitize assets; and manages short-term funds including deposits, and liquidity balances including short-term / highly marketable securities daily in order to prepare for an urgent situation of claim payments

(7) Operating risk management

1) Concept

Operational risk is a risk of loss due to improper or inadequate internal procedures, personnel and systems, or external events.

2) Recognition and Management Method

① Operational risk is defined as a comprehensive risk of loss arising from general business activities. Group focuses on preventing loss of incomplete sales, the most common type of operational risk incurred by life insurers. They strive to prevent incomplete sales by monitoring effectiveness and cancelation rate, and incomplete sales by channel (quality guarantee, violate duty of disclosure, etc.).

② In addition, the Group controls and manages operations by risk that appropriate to each risk characterization.

A) Related departments agree to start new business and new products for management of risk for internal control. In addition, accounting department has established an internal accounting system to prevent inappropriate accounting.

B) Group are subject to the agreement of the internal control department when contract are concluded and accounting and related departments check accounting balance in order to prevent mistakes / errors of settlement and payment. Audit department is audited to prevent fraud and embezzlement for internal and fraud risk management

C) Internal Financial Monitoring Department operates an internal financial management system to conduct internal control tasks and check status of internal control management through monitoring internal control semi-annually.

II. Indemnity Insurance

II-1. Risk Management Overview

(1) Overall system, including risk management policy, strategy and procedures

1) Risk Management Policy

Indemnity insurance segment comprehensively and continuously manages all risks that may arise from business activities such as insurance risk, interest rate risk, credit risk, market risk, and non-financial risk, so that the non-life insurance segment has appropriate level of risks and makes stable profits. In addition, a portfolio policy that manages risks in a comprehensive manner from the point of assets and liabilities is established and operated to ensure long-term development and growth.

2) Risk Management strategy

Indemnity insurance segment sets limit of integrated risk to maintain that total risk level is at the optimum level relative to available capital and manage credit exposure and limit for each sector. They also monitor and manage our portfolio of assets and commodities to eliminate and hedge excessive risks, and to increase risk to return by taking the appropriate level of risk.

3) Risk Management procedure

① Establishment Basic Policy for Risk Management

Related matters are implemented after determining main policy such as tolerance limit, ALM investment strategy, and underwriting strategy trough Risk Management Committee under Board of Director.

② Implementation of Risk Management by Sector

Indemnity insurance segment measures and manages amount of risk based capital requirements considering insurance, interest rate, credit, market, and operational risk as important risks. Liquidity risk is measured and monitored periodically to determine whether liquidity risk is appropriate by setting cash flow ratio and liquidity ratio as management criteria. In addition, Assets and liabilities are maintain are managed by building ALM system.

Risk bearing department is primarily responsible for managing risks associated with Department's work, possible risks are managed by maintaining cooperation with risk department.

③ Monitoring and Reporting of Risk

Group maintain risk at an appropriate model and monitor it for various risk factors that may negatively affect management. It is reported to management when symptom is found.

(2) Matters concerning internal capital adequacy test and management procedure

The Group calculates RBC (Risk Based Capital) ratios to test capital adequacy.

To calculate the solvency amount (capital requirements) in the RBC system, the risk is divided into insurance, interest rate, credit, market and operational risk.

(3) Structure and function of the board (risk management committee) and risk management organization.

1) Risk Management Committee

Risk management committee is the highest decision-making body for risk management. It decides important decisions for risk such as basic policy for risk management in line with management strategy, major management strategies based on risk, and limits.

Risk Management Committee consists of a total of three members, including two outside directors, with chairman as an outside director. Board of directors decides on matters delegated and important matters concerning risk management.

2) Risk Management Department

The Group is in charge of overall risk management and operates an independent risk management department to assist the Risk Management Committee. Risk Management Department perform the following role.

- Matters concerning operation of Risk Management Committee
- Analysis of risk management and establishment of confrontation strategy
- Performing risk measurement, evaluation and adjustment functions
- Setting and managing indicators, targets for risk management and limits
- Other risk management requirements

(4) Activities for establishing risk management system

1) Risk Management Practice Organization

The Group's risk management regulations consist of the risk management regulations and eight related bylaws. Each regulation defines and manages overall risk management tasks, including type of risk, basic principles of risk management, structure and role of Risk Management Committee, and role of the dedicated risk management organization.

2) Management of Limit Settings

Group has established regulations for issues, drafting of complete charge departments, consultation of related departments, and deliberation by the Risk Management Committee When the allowable limit is set in risk management regulations. They establish a risk tolerance standard that reflects annual business plan and asset management plan and manage capital adequacy.

3) Establishment and Operation of Risk Management System

Group monitors and manages amount of insurance price risk and reserve risk on a monthly basis through an insurance risk measurement system and it calculates and measures interest rate sensitive GAP, NII status by scenario, EaR, Duration Gap, and MVS through ALM system. In addition, market VaR and credit VaR are measured by market and credit measurement systems.

II-2. Insurance risk management

(1) Overview of Insurance Risk

Insurance risk refers to the risk related to underwrite of insurance contracts and claim payments where there is a possibility of loss if the actual payment is bigger than expected. Insurance risk can be divided into insurance price risk and policy reserve risk. Insurance price risk is the possibility of loss if the amount of insurance claim exceeds the amount of risk premiums received from policy holders. Policy reserve risk is the possibility of loss if the amount of actual insurance claim in the future exceeds claims reserve.

(2) Insurance Risk Measurement and Management Method

In order to properly control insurance risk calculated using RBC standard model, the non-life insurance segment computes volatility of insurance price risk/policy reserve risk/loss ratio per category of insurance assuming that the contracts are held for a year. In addition, the Risk Management Committee determines RBC-based insurance risk limits that reflect business plans at the beginning of each year, and monitors compliance with the limits. Department responsible for underwriting of general/long-term/vehicle insurance and reinsurance policies establishes and implement underwriting guidelines as well as reinsurance strategies to ensure that the insurance risk is managed at an appropriate level. The department also manages the insurance risk by works such as educating the guidelines.

(3) Insurance Risk Exposure

1) Amount for insurance price risk exposure

December 31, 2016

(In millions of Korean won)

	Amount for insurance price risk exposure			
Description	Direct(A)	Assumed(B)	Ceding(C)	Total(A+B-C)
General	144,743	6,681	87,506	63,918
Vehicle	241,490	—	67,236	174,254
Long-term - individual annuity insurance	856,165	—	423,953	432,212
Total	1,242,398	6,681	578,695	670,384

December 31, 2015

(In millions of Korean won)

Description	Amount for insurance price risk exposure(*) Direct(A)	Assumed(B)	Ceding(C)	Total(A+B-C)
General	139,744	3,315	88,414	54,645
Vehicle	274,964	—	76,495	198,469
Long-term - individual annuity insurance	761,532	—	377,644	383,888
Total	1,176,240	3,315	542,553	637,002

(*) Retention premiums for the last one year are used for the general insurance and vehicle insurance, and risk premiums for existing contracts for the last one year are used for the long-term individual annuity insurance.

2) Reverse Risk Exposure

December 31, 2016

(In millions of Korean won)

Description	Amount for insurance price risk exposure Direct(A)	Assumed(B)	Ceding(C)	Total(A+B-C)
General	69,630	4,174	39,111	34,693
Vehicle	82,372	—	19,960	62,412
Total	152,002	4,174	59,071	97,105

December 31, 2015

(In millions of Korean won)

Description	Amount for insurance price risk exposure Direct(A)	Assumed(B)	Ceding(C)	Total(A+B-C)
General	57,631	4,308	36,828	25,111
Vehicle	71,658	—	17,477	54,181
Total	129,289	4,308	54,305	79,292

(4) Insurance price adequacy

A Product Development team runs a Product Development Committee to help related teams to make a decision following a thorough review of risks that may arise during the new product development and sales. Product developments will be proceeded according to the procedures set by the committee. In addition, the Product Development team performs pre-analysis and evaluation such as propriety analysis of estimated risk rates and estimated expense rates, and cost benefit analysis. Appropriateness of documents and relevant coefficients is confirmed by an appointed actuary. Status of Proportion of premiums to risk premiums (risk loss ratios) as of December 31, 2016 and 2015 is as follows:

Description	December 31, 2016	December 31, 2015
General	86.44%	85.98%
Vehicle	122.42%	123.13%
Long-term	110.65%	110.70%
Loss ratio of total risk	111.59%	112.42%

(5) Policy reserve adequacy

1) Chain Ladder of Claims Paid

① General Insurance - Fire, marine, injury, technology, comprehensive, other casualty insurance

December 31, 2016

(In millions of Korean won)

	Year of progress				
Year of event	Year 1	Year 2	Year 3	Year 4	Year 5
<Estimated insurance premium(Accumulative basis)>					
2012. 1. 1 ~ 2012. 12.31	50,990	56,094	56,342	55,792	55,340
2013. 1. 1 ~ 2013. 12.31	71,280	77,658	77,456	77,294	—
2014. 1. 1 ~ 2014. 12.31	52,750	56,254	57,040	—	—
2015. 1. 1 ~ 2015. 12.31	44,629	48,102	—	—	—
2016. 1. 1 ~ 2016. 12.31	53,609	—	—	—	—
Total of estimated insurance premium	273,258	238,108	190,838	133,086	55,340
< Accumulative insurance premium >					
2012. 1. 1 ~ 2012. 12.31	28,558	46,275	48,888	53,802	54,162
2013. 1. 1 ~ 2013. 12.31	54,102	70,875	73,905	74,277	—
2014. 1. 1 ~ 2014. 12.31	30,366	47,676	54,968	—	—
2015. 1. 1 ~ 2015. 12.31	30,836	43,378	—	—	—
2016. 1. 1 ~ 2016. 12.31	32,078	—	—	—	—
Total of accumulative insurance premium	175,940	208,204	177,761	128,079	54,162
Difference (Total estimated claims - Total accumulated claims)	97,318	29,904	13,077	5,007	1,178

December 31, 2015

(In millions of Korean won)

	Year of progress				
Year of event	Year 1	Year 2	Year 3	Year 4	Year 5
<Estimated insurance premium(Accumulative basis)>					
2011. 1. 1 ~ 2011. 12.31	44,265	50,631	50,533	50,232	49,460
2012. 1. 1 ~ 2012. 12.31	54,303	59,819	60,068	59,755	—
2013. 1. 1 ~ 2013. 12.31	82,003	88,177	87,936	—	—
2014. 1. 1 ~ 2014. 12.31	52,747	56,250	—	—	—
2015. 1. 1 ~ 2015. 12.31	44,779	—	—	—	—
Total of estimated insurance premium	278,097	254,877	198,537	109,987	49,460
<Accumulative insurance premium>					
2011. 1. 1 ~ 2011. 12.31	25,338	44,550	47,375	47,927	48,101
2012. 1. 1 ~ 2012. 12.31	28,558	46,275	48,888	57,765	—
2013. 1. 1 ~ 2013. 12.31	57,699	75,239	80,746	—	—
2014. 1. 1 ~ 2014. 12.31	30,365	47,672	—	—	—
2015. 1. 1 ~ 2015. 12.31	30,836	—	—	—	—
Total of accumulative insurance premium	172,796	213,736	177,009	105,692	48,101
Difference (Total estimated claims - Total accumulated claims)	105,301	41,141	21,528	4,295	1,359

(*) Less than 400 cases of annual average number of accidents and RG insurance accidents were excluded from the analysis.

② General insurance - liability insurance, worker's compensation insurance

December 31, 2016

(In millions of Korean won)

	Year of Progress						
Year of event	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<Estimated insurance premium(Accumulative basis)>							
2010. 1. 1 ~ 2010. 12.31	3,558	4,457	5,620	5,552	5,507	5,705	5,483
2011. 1. 1 ~ 2011. 12.31	4,328	5,964	6,567	6,953	6,662	6,828	—
2012. 1. 1 ~ 2012. 12.31	7,231	8,457	8,754	8,027	7,777	—	—
2013. 1. 1 ~ 2013. 12.31	6,359	8,840	8,993	9,001	—	—	—
2014. 1. 1 ~ 2014. 12.31	9,021	12,586	13,895	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	6,936	9,849	—	—	—	—	—
2016. 1. 1 ~ 2016. 12.31	7,620	—	—	—	—	—	—
Total of estimated insurance premium	45,053	50,153	43,829	29,533	19,946	12,533	5,483
<Accumulative insurance premium>							
2010. 1. 1 ~ 2010. 12.31	2,110	3,793	5,214	5,308	5,347	5,363	5,361
2011. 1. 1 ~ 2011. 12.31	2,722	4,533	5,792	6,348	6,257	6,386	—
2012. 1. 1 ~ 2012. 12.31	2,502	5,168	6,632	7,136	7,281	—	—
2013. 1. 1 ~ 2013. 12.31	3,260	6,942	7,529	8,143	—	—	—
2014. 1. 1 ~ 2014. 12.31	5,465	9,741	11,308	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	4,357	8,193	—	—	—	—	—
2016. 1. 1 ~ 2016. 12.31	3,703	—	—	—	—	—	—
Total of accumulative insurance premium	24,119	38,370	36,475	26,935	18,885	11,749	5,361
Difference (Total estimated claims - Total accumulated claims)	20,934	11,783	7,354	2,598	1,061	784	122

December 31, 2015

(In millions of Korean won)

Year of event	Year of progress						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<Estimated insurance premium(Accumulative basis)>							
2009. 1. 1 ~ 2009. 12.31	2,623	4,163	4,414	4,607	4,702	4,746	4,852
2010. 1. 1 ~ 2010. 12.31	3,558	4,457	5,620	5,552	5,507	5,705	—
2011. 1. 1 ~ 2011. 12.31	4,328	5,964	6,567	6,953	6,662	—	—
2012. 1. 1 ~ 2012. 12.31	7,231	8,457	8,754	8,027	—	—	—
2013. 1. 1 ~ 2013. 12.31	6,359	8,840	8,993	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	9,021	12,586	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	6,935	—	—	—	—	—	—
Total of estimated insurance premium	40,055	44,467	34,348	25,139	16,871	10,451	4,852
<Accumulative insurance premium>							
2009. 1. 1 ~ 2009. 12.31	1,646	3,410	4,040	4,292	4,489	4,570	4,771
2010. 1. 1 ~ 2010. 12.31	2,110	3,793	5,214	5,308	5,347	5,363	—
2011. 1. 1 ~ 2011. 12.31	2,722	4,533	5,792	6,348	6,257	—	—
2012. 1. 1 ~ 2012. 12.31	2,502	5,168	6,632	7,136	—	—	—
2013. 1. 1 ~ 2013. 12.31	3,260	6,942	7,528	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	5,465	9,741	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	4,357	—	—	—	—	—	—
Total of accumulative insurance premium	22,062	33,587	29,206	23,084	16,093	9,933	4,771
Difference (Total estimated claims - Total accumulated claims)	17,993	10,880	5,142	2,055	778	518	81

③ Vehicle insurance

December 31, 2016

(In millions of Korean won)

Year of event	Year of Progress Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<Estimated insurance premium (accumulative basis)>							
2010. 1. 1 ~ 2010. 12.31	304,634	319,203	321,512	322,955	322,842	322,814	323,277
2011. 1. 1 ~ 2011. 12.31	278,221	285,955	289,509	289,989	289,843	291,585	—
2012. 1. 1 ~ 2012. 12.31	278,853	285,829	288,882	289,223	289,474	—	—
2013. 1. 1 ~ 2013. 12.31	228,520	231,550	232,526	233,213	—	—	—
2014. 1. 1 ~ 2014. 12.31	200,546	202,458	204,838	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	205,959	213,734	—	—	—	—	—
2016. 1. 1 ~ 2016. 12.31	201,079	—	—	—	—	—	—
Total of estimated insurance premium	1,697,812	1,538,729	1,337,267	1,135,380	902,159	614,399	323,277
<Accumulative insurance premium>							
2010. 1. 1 ~ 2010. 12.31	267,102	309,856	316,923	319,315	320,371	321,347	321,658
2011. 1. 1 ~ 2011. 12.31	236,946	274,403	281,538	284,458	286,781	287,956	—
2012. 1. 1 ~ 2012. 12.31	228,391	274,203	281,300	284,102	285,427	—	—
2013. 1. 1 ~ 2013. 12.31	191,785	223,155	227,421	229,774	—	—	—
2014. 1. 1 ~ 2014. 12.31	165,587	193,018	198,380	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	173,400	201,318	—	—	—	—	—
2016. 1. 1 ~ 2016. 12.31	165,243	—	—	—	—	—	—
Total of accumulative insurance premium	1,428,454	1,475,953	1,305,562	1,117,649	892,579	609,303	321,658
Difference (Total estimated claims - Total accumulated claims)	269,358	62,776	31,705	17,731	9,580	5,096	1,619

December 31, 2015

(In millions of Korean won)

Year of event	Year of Progress						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<Estimated insurance premium(Accumulative basis)>							
2009. 1. 1 ~ 2009. 12.31	275,783	287,712	292,106	295,157	294,787	294,297	294,580
2010. 1. 1 ~ 2010. 12.31	304,980	319,583	321,882	323,297	323,182	323,147	—
2011. 1. 1 ~ 2011. 12.31	278,540	286,318	289,860	290,335	290,694	—	—
2012. 1. 1 ~ 2012. 12.31	279,075	286,184	289,231	289,552	—	—	—
2013. 1. 1 ~ 2013. 12.31	228,815	232,179	233,021	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	200,987	202,933	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	206,321	—	—	—	—	—	—
Total of estimated insurance premium	1,774,501	1,614,909	1,426,100	1,198,341	908,663	617,444	294,580
<Accumulative insurance premium>							
2009. 1. 1 ~ 2009. 12.31	238,463	276,623	283,997	289,455	291,335	292,428	293,603
2010. 1. 1 ~ 2010. 12.31	267,448	310,236	317,294	319,658	320,711	321,680	—
2011. 1. 1 ~ 2011. 12.31	237,264	274,765	281,889	284,803	287,621	—	—
2012. 1. 1 ~ 2012. 12.31	228,612	274,558	281,648	284,431	—	—	—
2013. 1. 1 ~ 2013. 12.31	192,080	223,487	227,722	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	166,028	193,494	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	173,762	—	—	—	—	—	—
Total of accumulative insurance premium	1,503,657	1,553,163	1,392,550	1,178,347	899,667	614,108	293,603
Difference (Total estimated claims - Total accumulated claims)	270,844	61,746	33,550	19,994	8,996	3,336	977

④ Long-term insurance

December 31, 2016

(In millions of Korean won)

Year of event	Year of Progress Year 1	Year 2	Year 3	Year 4	Year 5
<Estimated insurance premium (accumulative basis)>					
2012. 1. 1 ~ 2012. 12.31	422,101	535,628	550,494	553,651	554,527
2013. 1. 1 ~ 2013. 12.31	501,969	623,604	639,868	641,394	—
2014. 1. 1 ~ 2014. 12.31	577,959	715,670	733,815	—	—
2015. 1. 1 ~ 2015. 12.31	644,436	800,851	—	—	—
2016. 1. 1 ~ 2016. 12.31	739,807	—	—	—	—
Total of estimated insurance premium	2,886,272	2,675,753	1,924,177	1,195,045	554,527
<Accumulative insurance premium>					
2012. 1. 1 ~ 2012. 12.31	408,618	530,592	547,891	551,669	553,307
2013. 1. 1 ~ 2013. 12.31	471,954	612,292	632,951	638,106	—
2014. 1. 1 ~ 2014. 12.31	541,291	706,384	729,469	—	—
2015. 1. 1 ~ 2015. 12.31	610,964	787,941	—	—	—
2016. 1. 1 ~ 2016. 12.31	698,234	—	—	—	—
Total of accumulative insurance premium	2,731,061	2,637,209	1,910,311	1,189,775	553,307
Difference (Total estimated claims - Total accumulated claims)	155,211	38,544	13,866	5,270	1,220

December 31, 2015

(In millions of Korean won)

Year of event	Year of Progress Year 1	Year 2	Year 3	Year 4	Year 5
<Estimated insurance premium (accumulative basis)>					
2011. 1. 1 ~ 2011. 12.31	348,680	444,527	457,638	459,798	459,713
2012. 1. 1 ~ 2012. 12.31	421,889	535,548	550,587	553,702	—
2013. 1. 1 ~ 2013. 12.31	502,168	623,614	639,926	—	—
2014. 1. 1 ~ 2014. 12.31	578,167	715,957	—	—	—
2015. 1. 1 ~ 2015. 12.31	644,124	—	—	—	—
Total of estimated insurance premium	2,495,028	2,319,646	1,648,151	1,013,500	459,713
<Accumulative insurance premium>					
2011. 1. 1 ~ 2011. 12.31	343,260	441,387	454,781	456,980	457,570
2012. 1. 1 ~ 2012. 12.31	408,104	529,879	546,971	550,863	—
2013. 1. 1 ~ 2013. 12.31	471,954	612,151	632,831	—	—
2014. 1. 1 ~ 2014. 12.31	540,963	705,573	—	—	—
2015. 1. 1 ~ 2015. 12.31	610,561	—	—	—	—
Total of accumulative insurance premium	2,374,842	2,288,990	1,634,583	1,007,843	457,570
Difference (Total estimated claims - Total accumulated claims)	120,186	30,656	13,568	5,657	2,143

2) Details of result for sensitivity analysis as of the end of the current and previous periods are as follows:

December 31, 2016

(In millions of Korean won)

Description	Variable amounts LAT base	Insurance liability	Earnings before tax(*)	Capital
Decrease in 10% discount rate	798,057	—	—	—
Increase 10% loss rate	792,300	7,379	(5,326)	(4,037)
Increase 10% business rate	168,640	—	—	—
Increase 10% loss investigation rate	1,099	—	—	—
Increase 10% surrender value rate	88,379	—	—	—
Decrease 10% surrender value rate	(94,794)	—	—	—

(*) Rate of reinsurance ceded of 27.82% was considered to calculate profit before tax as assessed amount of original insurances.

December 31, 2015

(In millions of Korean won)

Description	Changes LAT base	Insurance liability	Earnings before tax(*)	Capital
Decrease in 10% discount rate	762,333	—	—	—
Increase 10% loss rate	787,144	7,078	(5,100)	(3,866)
Increase 10% business rate	175,744	—	—	—
Increase 10% loss investigation rate	1,276	—	—	—
Increase 10% surrender value rate	64,091	—	—	—
Decrease 10% surrender value rate	(68,067)	—	—	—

(*) Rate of reinsurance ceded of 27.95% was considered to calculate profit before tax as assessed amount of original insurances.

(6) Maturity analysis for reversal of insurance contract liabilities

Details of maturity structure of premium reserves at the end of the current and previous years is as follows:

December 31, 2016

(In millions of Korean won)

Description	Less than 1 year	Over 1 year~ Less than 5 years	Over 5 year~ Less than 10 years	Over 10 years~ Less than 20 years	Over 20 years	Total
Long-term	127,685	935,074	986,218	630,431	5,423,136	8,102,544
Annuity	108	8,102	27,788	86,022	139,884	261,904
Total	127,793	943,176	1,014,006	716,453	5,563,020	8,364,448

December 31, 2015

(In millions of Korean won)

Description	Less than 1 year	Over 1 year~ Less than 5 years	Over 5 year~ Less than 10 years	Over 10 years~ Less than 20 years	Over 20 years	Total
Long-term	145,536	717,964	940,460	618,002	4,634,216	7,056,178
Annuity	107	7,717	25,201	82,473	132,109	247,607
Total	145,643	725,681	965,661	700,475	4,766,325	7,303,785

(7) Concentration of insurance risk and reinsurance policy

1) Insurance risk concentration and status of reinsurance policy and reinsurance operation strategy

Group sells various insurance contracts such as general insurance (fire, maritime, injury, technology, responsibility, comprehensive, other casualty insurance), vehicle (private cars, commercial vehicles, two-wheeled vehicles, etc.) insurance and long-term insurance (wealth, injury, driver, savings, disease, pension, etc.). The Group is diversifying its risks through reinsurance ceded, assumed reinsurance and jointly acquisition of risk. In addition, they control the amount of products, such as flood damage insurance that guarantees a very serious level of risk such as large-scale disasters and control the risk through jointly acquisition.

On the other hand, the Group establishes reinsurance operating strategies every year and conducts it through consideration and decision of the Risk Management Committee. In principle, reinsurance transactions are executed by reinsurance operation strategy.

2) Credit Rating of Reinsurance Company

The Group's credit ratings for major reinsurance company as of December 31, 2016 and 2015, are as follows:

Reinsurance company	December 31, 2016	December 31, 2015
KOREAN REINSURANCE CO., LTD	AA	AA
Munich Reinsurance Company	AAA	AAA
AIG	AA	AA
Hyundai Marine & Fire Insurance Co., Ltd	AA-	AA-
XL Re	AA	AA
HANNOVER RUECKVERSICHERUNG AG	AAA	AAA

3) Reinsurance premium by reinsurance company

Details of reinsurance premiums ceded for reinsurance company for the years ended December 31, 2016 and 2015 are as follows:

(In millions of Korean won)

Description	December 31, 2016	December 31, 2015
General insurance	87,506	88,414
Vehicle insurance	67,236	76,495
Long-term - individual annuity insurance	423,953	377,644
Total	578,695	542,553

4) Credit Quality of Reinsurance Assets

Details of credit quality of reinsurance assets as of December 31, 2016 and December 31, 2015, are as follows:

December 31, 2016

(In millions of Korean won)

Description	AAA	AA+ ~ AA-	A+ ~ BBB-	No rating	Total
Reserve for outstanding claims for reinsurance ceded	3,437	168,865	—	2	172,304
Unearned premium reserve for reinsurance ceded	1,855	67,243	5	9	69,112
Total	5,292	236,108	5	11	241,416

December 31, 2015

(In millions of Korean won)

Description	AAA	AA+ ~ AA-	A+ ~ BBB-	Total
Reserve for outstanding claims for reinsurance ceded	3,192	147,983	286	151,461
Unearned premium reserve for reinsurance ceded	2,395	76,937	249	79,581
Total	5,587	224,920	535	231,042

II-3. Interest Rate Risk Management

(1) Overview of Interest Rate Risk

Interest rate risk is risk of loss due to fluctuation of interest rate in the futures market and difference between maturity structure of asset and liability.

(2) Measurement and Management Method of Interest Rate Risk

1) Measurement Method

Measurement of interest rate risk uses standard model and the internal model of risk based capital requirements at the same time.

① Standard model

Interest rate risk according to risk based capital requirements is calculated by adding interest reverse margin risk with the larger value of maturity mismatch risk and minimum interest rate risk.

② Internal model

Standard model in Group calculates duration by directly simulating future cash flows of interest rate assets and interest rate liabilities with interest rate changes through ALM system.

2) Management Method

Based on the risk-based capital requirements at the beginning of the business year, the Group has established limit of interest risk allowing for management strategy, management plan, and asset management plan. Amount of risk derived from the internal model of the group is used as sub indicator. They perform asset management for strategy that take interest rate / maturity structure of liabilities in consideration and establish strategy expanding transfer of long lived assets and linked insurance sales

Interest rate risk is managed by reflecting asset management profit rate and market interest rate when calculating expected interest and declared interest. Method of calculating declared interest rate is determined through a resolution of the Risk Management Committee and declared rate is finally decided by risk management officer after discussing review by interest rate calculation committee each month.

(3) Interest Rate Risk Exposure

Details of interest rate risk exposure at the end of the current and previous years is as follows:

(In millions of Korean won)

Description	December 31, 2016	December 31, 2016
I. Interest rate liabilities(*1)	7,705,715	6,568,573
1. Fixed interest rate	181,354	200,974
2. Floating interest rate	7,524,361	6,367,599
II. Interest rate assets(*2)	7,944,167	6,813,866
1. Cash and deposits	197,203	441,137
2. Financial assets designated at FVTPL	199,124	353,402
3. AFS financial assets	1,972,157	2,397,221
4. HTM financial assets	2,807,611	1,280,257
5. Loans	2,768,072	2,341,849
Exposure amount(I - II)	(238,452)	(245,293)

(*1) It is the amount including reserves for insurance premium and unearned premium reserve in the amount of deducting amount deducted for cancelation of contract.
(*2) Asset exposures are assets that receive interest, excluding general and trading securities, assets that only receive fees without interest, and accrued income.

(4) Interest Rate Sensitivity

Details of interest rate sensitivity at the end of the current and previous years is as follows:

1) Status of Assets by remaining maturity and liabilities exposures

December 31, 2016

(In millions of Korean won)

Description	Less than 3 years	More than 3 years~less than 5 years	More than 5 years	Total
Interest rate assets(a)	1,648,212	589,627	5,706,328	7,944,167
Interest rate liabilities(b)	547,247	515,574	6,642,894	7,705,715
Gap(a-b)	1,100,965	74,053	(936,566)	238,452

December 31, 2015

(In millions of Korean won)

Description	Less than 3 years	More than 3 years~less than 5 years	More than 5 years	Total
Interest rate assets(a)	1,274,918	658,184	4,880,764	6,813,866
Interest rate liabilities(b)	480,243	379,824	5,708,506	6,568,573
Gap(a-b)	794,675	278,360	(827,742)	245,293

2) Status of floating rate liabilities for guaranteed minimum interest rate

The Group reserves for a floating rate contract based on a quoted interest rate. Market interest rate and profitability of asset management of the non-life insurance segment are reflected in the quoted interest rate calculation. Minimum guaranteed interest rate is defined in terms and conditions of each product. If the quoted interest rate falls below the minimum guaranteed interest rate of product, the non-life insurance segment sets premium reserves at the minimum guaranteed interest rate.

December 31, 2016

(In millions of Korean won)

Description	Less than 0%	Over 0% ~ Less than 2%	Over 2% ~ Less than 3%	Over 3% ~ Less than 4%	Over 4%	Total
Floating rate liabilities	6,484	2,182,976	1,626,843	448,199	—	4,264,502

December 31, 2015

(In millions of Korean won)

Description	Less than 0%	Over 0% ~ Less than 2%	Over 2% ~ Less than 3%	Over 3% ~ Less than 4%	Over 4%	Total
Floating rate liabilities	6,825	2,001,920	1,011,409	833,397	10	3,853,561

3) Status of Duration

Details of sensitivity of assets and liabilities in accordance with changes in market interest rates calculated based on RBC standards as of December 31, 2016 and 2015, are as follows:

	December 31, 2016		December 31, 2015	
Description	Assets	Liabilities	Assets	Liabilities
Interest rate sensitivity	7.13	6.64	5.34	6.26

II-4. Credit Risk Management

(1) Overview of Credit Risk

Credit risk is potential financial loss of a default or breach of contract in providing funds to individuals and corporations in the form of loans and purchases.

(2) Measurement and Management Method of Credit Risk

1) Measurement Method

Credit risk is measured using the risk based capital (RBC) requirement for assets subject to credit risk. The risk based capital (RBC) Requirement calculates the amount of credit risk differently though nature of the asset, level of assurance, level of assurance, and credit rating of credit rating institution.

2) Management Method

The non-life insurance segment divides object of credit risk management into two groups, individuals and separate entities (i.e. general companies and financial companies). The credit risks of individuals are managed in accordance with loan regulations. On the other hand, credit risk managements for separate entities are classified into trading limits management, investment and loan grade management, and selecting and managing institution(s) to deal with short-term financial transactions depending on their credit risk level and characteristics of transaction(s) being traded. Assets subject to credit risks are classified by risk factor and periodically monitored while credit risk limits are established to manage concentrations of credit risk. In addition, if the borrower's credit rating is downgraded, the segment will adjust terms to a full or partial redemption at maturity in the light of the reassessed credit rating. The borrower or issuer, on the other hand, can take actions such as requiring prepayment if it is determined that one has a question on credit of the other party.

(3) Credit Risk Exposure

1) Maximum Credit Risk Exposure

Details of maximum credit risk exposure at the end of current and previous years, are as follows:

(In millions of Korean won)

Description	December 31, 2016	December 31, 2015
Cash and deposits(*1)	218,753	505,010
Short-term trading financial assets(*2)	42,652	71,719
Financial assets designated at FVTPL(*2)	185,016	333,874
AFS financial assets(*2)	1,073,711	1,656,219
HTM investments	2,849,686	1,302,591
Derivative assets for hedging	5,136	6,729
Loans(*3)	2,933,445	2,427,872
Other assets(*4)	320,858	298,301
Total	7,629,257	6,602,315

(*1) Cash in possession is excluded
(*2) Equity securities and beneficiary certificates are excluded.
(*3) Allowance for doubtful accounts, deferred subsidiary expenses (earnings) for loan, and present value discounts are added or deducted.
(*4) The amount of allowance for bad debts was added or deducted with amount of insurance receivables and other receivables.

2) Maximum Exposure after Credit Enhancement

Details of maximum exposure after credit risk reinforcement at the end of current and previous years, is as follows:

December 31, 2016

(In millions of Korean won)

Description	Maximum exposure	Set-off(*)	Credit enhancement: Cancelation refund	Credit enhancement: Collateral	Credit enhancement: Guarantee	Credit enhancement: Other	Maximum exposure after credit enhancement
Cash and deposits	218,753	—	—	—	—	—	218,753
Short-term trading financial assets	42,652	—	—	—	—	—	42,652
Financial assets designated at FVTPL	185,016	—	—	—	—	—	185,016
AFS financial assets	1,073,711	—	—	47,500	—	—	1,026,211
HTM investments	2,849,686	—	—	—	—	—	2,849,686
Derivative assets for hedging	5,136	—	—	—	—	—	5,136
Loans	2,933,445	—	456,092	794,922	243,716	1,066,377	372,338
Other assets	320,858	120,411	—	—	—	—	200,447
Total	7,629,257	120,411	456,092	842,422	243,716	1,066,377	4,900,239

December 31, 2015

(In millions of Korean won)

Description	Maximum exposure	Set-off(*)	Credit enhancement: Cancelation refund	Credit enhancement: Collateral	Credit enhancement: Guarantee	Credit enhancement: Other	Maximum exposure after credit enhancement
Cash and deposits	505,010	—	—	—	—	—	505,010
Short-term trading financial assets	71,719	—	—	—	—	—	71,719
Financial assets designated at FVTPL	333,874	—	—	—	—	—	333,874
AFS financial assets	1,656,219	—	—	—	23,984	—	1,632,235
HTM financial assets	1,302,591	—	—	—	—	—	1,302,591
Derivative assets for hedging	6,729	—	—	—	—	—	6,729
Loans	2,427,872	—	365,112	678,017	147,703	908,686	328,354
Other assets	298,301	131,194	—	—	—	—	167,107
Total	6,602,315	131,194	365,112	678,017	171,687	908,686	4,347,619

(*) The amount of the obligation to pay for the same borrower.

(4) Concentration of Credit Risk

1) Regional concentration

December 31, 2016

(In millions of Korean won)

Description	Republic of Korea	America	Other	Total
Cash and Deposits	218,753	—	—	218,753
Short-term trading financial assets	42,652	—	—	42,652
Financial assets designated at FVTPL	111,242	—	73,774	185,016
AFS financial assets	651,877	201,408	220,426	1,073,711
HTM financial assets	2,614,091	228,875	6,720	2,849,686
Derivative assets for hedging	5,136	—	—	5,136
Loans	2,933,445	—	—	2,933,445
Total	6,577,196	430,283	300,920	7,308,399

December 31, 2015

(In millions of Korean won)

Description	Republic of Korea	America	Other	Total
Cash and Deposits	505,010	—	—	505,010
Short-term trading financial assets	71,719	—	—	71,719
Financial assets designated at FVTPL	329,303	4,571	—	333,874
AFS financial assets	1,655,839	—	380	1,656,219
HTM financial assets	1,302,591	—	—	1,302,591
Derivative assets for hedging	6,729	—	—	6,729
Loans	2,427,872	—	—	2,427,872
Total	6,299,063	4,571	380	6,304,014

2) Industrial concentration

December 31, 2016

(In millions of Korean won)

Description	Financial business	Government investment institution	Manufacturing business	Service business	Real estate business	Personal	Other	Total
Cash and deposits	218,753	—	—	—	—	—	—	218,753
Short-term trading financial assets	2,684	20,034	—	—	—	—	19,934	42,652
Financial assets designated at FVTPL	185,016	—	—	—	—	—	—	185,016
AFS financial assets	796,359	111,943	132,593	—	—	—	32,816	1,073,711
HTM financial assets	580,468	1,498,471	516,352	62,116	—	—	192,279	2,849,686
Derivative assets for hedging	5,136	—	—	—	—	—	—	5,136
Loans	312,932	—	194,868	82,168	333,099	1,320,117	690,261	2,933,445
Total	2,101,348	1,630,448	843,813	144,284	333,099	1,320,117	935,290	7,308,399

December 31, 2015

(In millions of Korean won)

Description	Financial business	Government investment institution	Manufacturing business	Service business	Real estate business	Personal	Other	Total
Cash and deposits	505,010	—	—	—	—	—	—	505,010
Short-term trading financial Assets	1,568	70,151	—	—	—	—	—	71,719
Financial assets designated at FVTPL	329,303	—	—	—	—	—	4,571	333,874
AFS financial assets	818,068	201,052	460,153	10,141	—	—	166,805	1,656,219
HTM investments	309,471	929,867	—	41,295	—	—	21,958	1,302,591
Derivative assets for hedging	6,729	—	—	—	—	—	—	6,729
Loans	251,282	—	174,477	88,642	256,444	1,059,635	597,392	2,427,872
Total	2,221,431	1,201,070	634,630	140,078	256,444	1,059,635	790,726	6,304,014

(5) Credit Quality

1) Credit Quality of Loans

① Impairment information of loans

Details of impairment of loans at December 31, is as follows:

(In millions of Korean won)

	December 31, 2016			December 31, 2015		
Description	Book value before deducting allowance for bad debts	Allowance for doubtful accounts	Book value after deducting allowance for bad debts	Book value before deducting allowance for bad debts	Allowance for doubtful accounts	Book value after deducting allowance for bad debts
No overdue and undamaged loans	2,887,013	(915)	2,886,098	2,393,151	(283)	2,392,868
Overdue but undamaged loans	41,340	(309)	41,031	27,200	(192)	27,008
Damaged Loans	12,493	(6,177)	6,316	12,927	(4,935)	7,992
Total	2,940,846	(7,401)	2,933,445	2,433,278	(5,410)	2,427,868

② Details of credit quality of loans for no overdue and undamaged loans as of December 31, 2016 and December 31, 2015, are as follows:

A) Individual Loans

December 31, 2016

(In millions of Korean won)

Description	Credit rating 1~2	Credit rating 3~4	Credit rating 5~6	Credit rating 7~8	Credit rating 9~10	Unclassified	Total
Policy loans	—	—	—	—	—	444,646	444,646
Loan secured by real estate	168,577	178,427	303,619	64,576	8,540	—	723,739
Unsecured loans	3,657	18,804	28,989	3,544	297	—	55,291
Loan secured by third party guarantees	561	695	774	134	25	—	2,189
Other loans	11,012	18,911	16,658	4,635	234	—	51,450
Sub total	183,807	216,837	350,040	72,889	9,096	444,646	1,277,315
Allowance for doubtful accounts	(159)	(208)	(320)	(66)	(7)	(155)	(915)
Total	183,648	216,629	349,720	72,823	9,089	444,491	1,276,400

December 31, 2015

(In millions of Korean won)

Description	Credit rating 1~2	Credit rating 3~4	Credit rating 5~6	Credit rating 7~8	Credit rating 9~10	Unclassified	Total
Policy loans	—	—	—	—	—	356,558	356,558
Loan secured by real estate	135,261	144,555	251,012	65,402	4,740	—	600,970
Unsecured loans	2,620	10,671	18,705	3,737	239	—	35,972
Loan secured by third party guarantees	690	795	723	248	51	—	2,507
Other loans	8,649	11,089	11,231	2,828	166	—	33,963
Sub total	147,220	167,110	281,671	72,215	5,196	356,558	1,029,970
Allowance for doubtful accounts	(46)	(52)	(80)	(21)	(1)	(77)	(277)
Total	147,174	167,058	281,591	72,194	5,195	356,481	1,029,693

B) Corporate Loans

December 31, 2016

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	No rating	Total
Policy loans	—	—	—	—	11,601	11,601
Loan Secured by real estate	—	—	36,455	—	28,100	64,555
Unsecured loans	17,721	—	—	—	—	17,721
Other loans	628,144	170,593	273,567	74,828	368,689	1,515,821
Sub total	645,865	170,593	310,022	74,828	408,390	1,609,698
Allowance for doubtful accounts	—	—	—	—	—	—
Total	645,865	170,593	310,022	74,828	408,390	1,609,698

December 31, 2015

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	No rating	Total
Policy loans	—	—	—	—	8,554	8,554
Loan Secured by real estate	—	—	—	—	40,866	40,866
Unsecured loans	18,426	—	—	—	—	18,426
Other loans	612,072	31,165	227,286	76,825	347,991	1,295,339
Sub total	630,498	31,165	227,286	76,825	397,411	1,363,185
Allowance for doubtful accounts	—	—	—	—	(6)	(6)
Total	630,498	31,165	227,286	76,825	397,405	1,363,179

③ Details of credit quality of loans for overdue but undamaged loans as of December 31, 2016 and December 31, 2015, is as follows:

December 31, 2016

(In millions of Korean won)

Description	Less than 30 days	More than 30 days and less than 60 days	More than 60 days and less than 90 days	Total
Loan Secured by real estate	34,046	1,862	1,097	37,005
Unsecured loans	2,484	399	296	3,179
Loan secured by third party guarantees	17	—	—	17
Other Loans	1,104	35	—	1,139
Sub total	37,651	2,296	1,393	41,340
Allowance for doubtful accounts	(115)	(83)	(111)	(309)
Total	37,536	2,213	1,282	41,031

December 31, 2015

(In millions of Korean won)

Description	Less than 30 days	More than 30 days and less than 60 days	More than 60 days and less than 90 days	Total
Loan secured by real estate	20,931	2,052	643	23,626
Unsecured loans	1,695	136	293	2,124
Loan secured by third party guarantees	12	—	—	12
Other loans	1,398	40	—	1,438
Sub total	24,036	2,228	936	27,200
Allowance for doubtful accounts	(56)	(61)	(75)	(192)
Total	23,980	2,167	861	27,008

④ Details of list on impaired loans as of December 31, 2016 and December 31, 2015, is as follows:

December 31, 2016

(In millions of Korean won)

Description	Book value before deducting allowance for bad debts	Allowance for bad debts	Book value after deducting allowance for bad debts
Loan secured by real estate	4,717	(362)	4,355
Unsecured loans	682	(107)	575
Other loans	7,094	(5,708)	1,386
Total	12,493	(6,177)	6,316

December 31, 2015

(In millions of Korean won)

Description	Book value before deducting allowance for bad debts	Allowance for bad debts	Book value after deducting allowance for bad debts
Loan secured by real estate	5,492	(377)	5,115
Unsecured loans	312	(64)	248
Other loans	7,123	(4,494)	2,629
Total	12,927	(4,935)	7,992

⑤ Fair value of collateral type of loan

December 31, 2016

(In millions of Korean won)

Description	Book value before deducting allowance for bad debts	Credit enhancement				
		Cancelation refund	Collateral	Guarantee	Other	Total
No overdue and undamaged loans	2,887,013	456,092	751,839	243,699	1,065,208	2,516,838
Overdue but undamaged loans	41,340	—	37,006	17	1,139	38,162
Damaged loans	12,493	—	6,077	—	30	6,107
Total	2,940,846	456,092	794,922	243,716	1,066,377	2,561,107

December 31, 2015

(In millions of Korean won)

Description	Book value before deducting allowance for bad debts	Credit enhancement				
		Cancelation refund	Collateral	Guarantee	Other	Total
No overdue and undamaged loans	2,393,155	365,112	641,836	147,691	907,189	2,061,828
Overdue but undamaged loans	27,200	—	23,626	12	1,437	25,075
Damaged loans	12,927	—	12,555	—	60	12,615
Total	2,433,282	365,112	678,017	147,703	908,686	2,099,518

2) Credit Quality of Deposit and Securities

① Credit Soundness

(In millions of Korean won)

Description	December 31, 2016	December 31, 2015
No overdue and undamaged deposits and debt security		
Cash and deposits	218,753	505,010
Short-term trading financial assets	42,652	71,719
Financial assets designated at FVPTL	185,016	329,303
AFS financial assets	1,073,711	1,655,839
HTM financial assets	2,849,686	1,302,591
Sub total	4,369,818	3,864,462
Impaired debt security		
financial assets designated at FVTPL	—	4,571
AFS financial assets	—	380
Sub total	—	4,951
Total	4,369,818	3,869,413

② Composition by Credit Rating

December 31, 2016

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	Less than BB+	Total
Cash and deposits	224	142,444	76,077	8	—	218,753
Short-term trading financial assets	2,684	39,968	—	—	—	42,652
Financial assets designated at FVTPL	—	—	120,551	28,533	35,932	185,016
AFS financial assets	—	54,505	901,232	117,974	—	1,073,711
HTM financial assets	589,004	1,251,889	981,476	27,317	—	2,849,686
Total	591,912	1,488,806	2,079,336	173,832	35,932	4,369,818

December 31, 2015

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	Less than BB+	Total
Cash and deposits	108	348,535	155,286	4	1,077	505,010
Short-term trading financial assets	11,570	60,149	—	—	—	71,719
Financial assets designated at FVTPL	—	—	168,235	126,794	38,845	333,874
AFS financial assets	190,415	331,134	970,820	163,470	380	1,656,219
HTM financial assets	255,772	747,583	299,236	—	—	1,302,591
Total	457,865	1,487,401	1,593,577	290,268	40,302	3,869,413

3) Credit Quality of Derivative Assets for hedging

Details of credit quality of derivative assets for hedging as of December 31, 2016 and 2015 are as follows:

December 31, 2016

(In millions of Korean won)

Description	Risk free	AAA	Total
Derivative assets for hedging	5,010	126	5,136

December 31, 2015

(In millions of Korean won)

Description	Risk free	AAA	Total
Derivative assets for Hedging	6,313	416	6,729

II-5. Market Risk Management

(1) Overview of Market Risk

Market risk is potential financial loss that may arise from unfavorable price fluctuations in financial markets, such as stock prices, interest rates, and exchange rates. Details of major assets and liabilities of market risk by risk factors are as follows:

Risk factor	Assets/ Liabilities	Risk
Stock price	Stocks	Decrease in present value of stockholding due to fall in stock price
Interest rate	Bonds	Decrease in present value of stockholding due to increase interest rate
Exchange rate	Foreign currency assets, liabilities	Decrease in present value when converting to won by exchange fluctuations.

(2) Measurement and Management Method of Market Risk

1) Measurement Method

Market risk is measured by using a RBC standard model. The amount of market risk is measured by multiplying exposure of held-for-trading financial assets, derivatives, and foreign currency assets and liabilities by corresponding market risk coefficient.

2) Management Method

Market risk is regularly measured using the RBC standard model and results and issues of the measurement are reported to the management.

Information on securities market(s) (i.e. price, rate of return, sensitivity, etc.) and information on assets held by the non-life insurance segment are assembled by asset category and by product on a daily basis and these information are then uploaded to a market risk management database. In addition, the market risk is measured by using a market risk management system while asset management limits, loss limits, and stop-loss limits are established quarterly by the Risk Management Committee.

(3) Market Risk Exposure

Details of market risk exposure as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

Description	December 31, 2016	December 31, 2015
Interest rate position	390,546	377,060
Foreign exchange position	64,962	50,016
Total	455,508	427,076

(4) Sensitivity analysis

Details of sensitivity analysis of market risk exposed at the end of the current and previous years, are as follows:

December 31, 2016

(In millions of Korean won)

Description	Fluctuation	Effect on profit or loss	Effect on other comprehensive income
Exchange rate fluctuation	Increase 100 won	1,918	—
	Decrease 100 won	(1,918)	—
Interest rate fluctuation	Increase 1%	(5,806)	(86,061)
	Decrease 1%	5,806	86,061
Stock price fluctuation	Increase 10%	—	114
	Decrease 10%	—	(114)

December 31, 2015

(In millions of Korean won)

Description	Fluctuation	Effect on profit or loss	Effect on other comprehensive income
Exchange rate fluctuation	Increase 100 won	(4,169)	620
	Decrease 100 won	4,169	(620)
Interest rate fluctuation	Increase 1%	(11,197)	(101,027)
	Decrease 1%	11,197	101,027
Stock price fluctuation	Increase 10%	—	452
	Decrease 10%	—	(452)

II-6. Liquidity Risk Management

(1) Overview of Liquidity Risk

Liquidity risk refers to risk of loss due to inconsistent maturity dates of assets and liabilities or unexpected cash outflows.

(2) Measurement and Management Method of Liquidity Risk

Target of liquidity risk management is all transactions on the flow of won / foreign currencies that are procured and operated in each sector and Group manages liquidity risk through cash flow and liquidity ratio among liquidity gap, liquidity ratio, maturity mismatch ratio, and management evaluation. It is classified by degree of asset securitization and liquidity balance including short-term fund and marketable securities are managed on a daily basis.

(3) Analysis of contract expiration of financial liability

Details of contract expiration of financial liabilities as of December 31, 2016 and 2015 are as follows.

December 31, 2016

(In millions of Korean won)

Description		Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
<Non-derivatives>						
Short-term bonds		2,612	7,835	129,934	120,670	261,051
Other liabilities		58,621	183,564	5,000	—	247,185
Total		61,233	191,399	134,934	120,670	508,236
<Derivatives>						
Financial liabilities at FVTPL	Cash inflow	—	—	—	—	—
	Cash outflow	—	—	—	—	—
	Net	—	—	—	—	—
Derivative liabilities for hedging	Cash inflow	149,121	663,315	114,961	52,358	979,755
	Cash outflow	152,162	698,031	124,096	55,789	1,030,078
	Net	3,041	34,716	9,135	3,431	50,323
Amount		3,041	34,716	9,135	3,431	50,323

December 31, 2015

(In millions of Korean won)

Description		Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
<Non-derivatives>						
Short-term bonds		2,596	7,787	166,403	77,605	254,391
Other Liabilities		59,284	167,992	3,556	2,000	232,833
Total		61,880	175,779	169,959	79,605	487,224
<Derivatives>						
Financial liabilities at FVTPL	Cash inflow	17,283	5,515	—	—	22,798
	Cash outflow	17,660	5,997	—	—	23,657
	Net	377	482	—	—	859
Derivative liabilities for hedging	Cash inflow	74,520	449,840	163,294	135,739	823,393
	Cash outflow	79,855	478,844	180,015	146,212	884,926
	Net	5,335	29,004	16,721	10,473	61,533
Amount		5,712	29,486	16,721	10,473	62,392

* The above amounts as per remaining maturity are different from the book value because the above amount was not discounted to present value. Other liabilities include only financial liabilities such as insurance payable and non-trade payables.

II-7. Capital Adequacy Test

(1) Overview of Capital Adequacy Test

Capital adequacy test means comparing size of the required capital with the actual amount of available capital and evaluating whether it has adequate capital.

(2) Measurement and Management of Capital Adequacy Test

Group calculates risk-based solvency ratio based on solvency amount (available capital) and amount based on risk-based solvency amount (required capital) and report quarterly results, causes and countermeasures to management.

Supervisory authority is obliged to maintain the ratio of risk-based solvency ratio at 100% and IS able to maintain financial quality through timely corrective measures in case of shortfall. As of December 31, 2016 and 2015, Group has been complying with solvency ratio provided by supervisory authority.

45. UNCONSOLIDATED STRUCTURED ENTITIES

(1) Natures and scope of the interest in unconsolidated structured entities

The Group is involved in structured entities through investments in asset-backed securities, structured finance, and investment funds. The main characteristics of the structured entities are as follows:

Unconsolidated structured entities classified as 'asset securitization' is engaged in issuing asset-backed securities based on securitized assets as underlying assets and distributes principals and dividends of the asset-backed securities with sources such as borrowings or proceeds from management, operation and disposition of the securitized asset. 'Asset securitization' transfers risks related to the issuance of asset-backed securities through purchasing agreements with the Group or credit offering In relations to this, the Group recognizes interest income or commission income.

Unconsolidated structured entities, categorized as 'structured finance', include real estate project financing investment company, infrastructure business corporation, and special purpose company for shipping (aircraft) finance. Each entity is established separately with limited purposes for efficiency, and raises funds through equity investments or loans from financial institutions and other participating institutions. 'Structured finance' is mainly used to finance large scale risky businesses. Investments are made based on economic feasibility of the specific business or project rather than credibility of the party undertaking the project or physical collaterals, and the investors take the profit generated in the course of the project. The Group provides funds to the structured entities for structured finance in the form of equity investments and others.

Unconsolidated structured entities, categorized as 'investment fund', include investment trust and private equity fund. Investment trusts invest and manage funds in accordance with the trust agreement, and distribute the profits to the investors. Private equity funds (PEFs) raise investment funds in private offering to acquire equity securities for participation in management or improvement of governance structures. The profits generated are distributed among investing members of the private equity funds. As an investor in investment funds, the Group recognizes gains (losses) on valuation of equity investments and dividend income based on the percentage of interest, and is exposed to loss of principal if values of the investment funds decrease.

(2) Details of the size of the unconsolidated structured entities and the nature of risks related to the Group's interests in the said entities are as follows:

Description	Asset securitization	Structured finance	Investment fund	Total
Assets recognized in the statement of financial position				
AFS financial assets	—	8,958	2,687,602	2,696,560
HTM financial assets	—	—	—	—
Loans	568,543	2,653,777	—	3,222,320
Total	568,543	2,662,735	2,687,602	5,918,880
Maximum lost exposure amount(*1)	617,259	3,669,163	4,253,645	8,540,067
Total assets of unconsolidated structured entities(*2)	2,200,613	44,295,366	22,720,867	69,216,846

(*1) Maximum exposure to losses includes the investment assets recognized in the Group's financial statements and the amounts which are probable to be paid when certain conditions are met by agreements including purchase agreements, credit granting and others.

(*2) Total assets of the unconsolidated structured entities are as of December 31, 2016 whereas for some unconsolidated structured entities where it is difficult to obtain financial information, total assets are as of the closest day to the end of the reporting period.

46. DISPOSAL OF SUBSIDIARIES

The Group disposed of its subsidiaries, KP Securities Investment Trust No. 6 and Heungkuk Market Reader's Private Investor No. 2, respectively, during the current year.

(1) Details of disposal consideration of fair value as of the end of the reporting period, are as follows: (In millions of Korean won)

Description	December 31, 2016
Cash and cash equivalents received	41,865

(2) Details of carrying amounts for assets and liabilities of subsidiaries as of the end of date to control, are as follows (In millions of Korean won):

Description	December 31, 2016
Current asset	41,869
Non-current asset	—
Current liability	4
Non-current liability	—
Total net book value of disposals	41,865

(3) Details of gain on disposal of subsidiaries as of the end of the reporting period, are as follows: (In millions of Korean won)

Description	December 31, 2016
Consideration of disposal	41,865
Carrying amount of net assets disposed	(41,865)
Non-controlling interest	—
Disposal gain (loss)	—

(4) Details of net cash flows from disposal of subsidiaries are as follows: (In millions of Korean won)

Description	December 31, 2016
Cash and cash equivalents received	41,865
Deductions: Disposal of cash and cash equivalents	(41,865)
Net cash flow	—

Deloitte.

Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 17, 2016

To the Shareholders and the Board of Directors of
Heungkuk Life Insurance Co., Ltd.:

We have audited the accompanying consolidated financial statements of Heungkuk Life Insurance Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, respectively, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014, respectively and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

Deloitte Anjin LLC

March 17, 2016

Notice to Readers

This report is effective as of March 17, 2016, the auditors' report date. Certain subsequent events or circumstances, which may occur between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the financial statements and may result in modifications to the auditors' report.

Deloitte.

Heungkuk Life Insurance Co., Ltd.
And Subsidiaries (the "Company" or "Group")

Consolidated Financial Statements
As of and for the Years Ended December 31, 2015 and 2014

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Kim, Ju Yoon
Chief Executive Officer
Heungkuk Life Insurance Co., Ltd.

Deloitte.

Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Account	Notes	December 31, 2015	December 31, 2014
Assets			
I. Cash and cash equivalents	6,28,44	491,194,849,025	373,272,230,826
II. Deposits	4,5,6,28,44	1,101,822,072,377	1,220,592,302,978
III. Securities	4,5,7,28,44,45	16,178,542,636,598	12,837,250,876,814
IV. Loans	4,5,9,28,44,45	8,226,679,251,548	7,040,269,016,946
V. Property and equipment	11,12	317,746,348,273	286,453,200,833
VI. Investment properties	11,12	626,195,415,860	650,525,037,892
VII. Intangible assets	12	121,154,728,104	125,060,683,050
VIII. Derivatives assets	4,5,10,28,44	20,558,270,454	37,387,534,978
IX. Current tax assets		53,541,877,016	35,852,088,221
X. Other financial assets	4,5,9,13	779,596,377,880	720,738,761,465
XI. Other assets	14	1,445,037,630,626	1,459,808,666,686
XII. Separate account assets	20,44	2,470,502,516,937	2,229,280,923,589
Total assets		31,832,571,974,698	27,016,491,324,278
Liabilities			
I. Insurance contract liabilities	15,16,17	25,837,363,832,673	21,885,516,363,536
II. Policyholders' equity adjustments	18	89,579,170,522	93,039,182,342
III. Borrowings	4,5,19,28	500,762,072,425	450,276,092,593
IV. Deferred tax liabilities	38	149,505,097,170	129,310,092,767
V. Derivatives liabilities	4,5,10,28	173,332,650,674	55,262,997,748
VI. Net defined benefit liability	3,21	403,497,731	504,701,139
VII. Provisions	23	9,768,088,760	7,324,885,649
VIII. Other financial liabilities	4,5,22	396,402,713,123	351,071,952,221
IX. Other liabilities	24	385,635,074,924	222,090,805,004
X. Separate account liabilities	20	2,760,060,216,873	2,431,489,229,934
Total liabilities		30,302,812,414,875	25,625,886,302,933
Equity			
I. Capital stock	1,25	67,916,845,000	67,916,845,000
II. Other pain-in capital	25	98,438,042,061	91,403,580,191
III. Other components of equity	26	403,447,942,563	368,826,371,649
IV. Retained earnings	27	781,183,117,501	682,476,840,254
V. Non-controlling interests		178,773,612,698	179,981,384,251
Total equity		1,529,759,559,823	1,390,605,021,345
Total liabilities and equity		31,832,571,974,698	27,016,491,324,278

See accompanying notes to consolidated financial statements

Deloitte.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015, and 2014

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Accounts	Notes	2015	2014
I. Operating revenues		10,049,426,536,512	8,285,408,068,663
1. Premium revenues	29	7,981,362,981,391	6,428,251,495,032
2. Reinsurance revenues	30	590,770,975,874	520,347,546,611
3. Interest income	28	839,241,977,756	772,405,339,888
4. Compensation income		169,810,834	—
5. Gains on valuation and sale of securities	28	88,226,845,638	84,061,869,159
6. Gains on valuation and sale of loans	28	3,757,843,100	—
7. Gains on foreign currency transaction and translation	28	179,080,622,953	90,985,353,674
8. Gains on derivatives transaction and valuation	10,28	35,585,225,308	33,922,040,130
9. Other operating income	31	139,630,891,082	109,643,879,944
10. Separate account commissions received		145,105,684,063	214,963,061,093
11. Separate account income	20	46,493,678,513	30,827,483,132
II. Operating expenses		9,917,171,916,562	8,135,760,132,462
1. Provision for insurance contract liabilities	15	3,948,891,348,269	2,689,769,327,112
2. Claims paid	32	3,683,924,888,631	3,380,613,210,671
3. Reinsurance expenses	30	588,399,381,394	521,605,950,096
4. Interest expenses	28	33,818,629,134	28,126,682,711
5. Compensation loss		—	1,440,867,999
6. Business expenses	21,34	561,621,008,740	495,027,769,597
7. Amortization of deferred acquisition costs	14,34	609,981,567,805	607,108,223,547
8. Claim adjustment expenses	35	54,480,512,467	51,039,270,292
9. Investment administrative expenses	21,36	42,143,119,035	39,646,004,202
10. Losses on valuation and sale of securities	28	27,477,094,562	12,478,539,243
11. Losses on valuation and disposal of loans	28	6,331,160,291	545,940,397
12. Losses on foreign currency transaction and translation	28	12,530,201,064	17,262,573,740
13. Losses on derivatives transaction and valuation	10,28	190,230,353,475	98,621,964,426
14. Other operating expenses	37	37,527,007,773	12,864,644,561
15. Separate account commissions paid		73,321,965,409	148,781,680,736
16. Separate account expenses	20	46,493,678,513	30,827,483,132
III. Operating income		132,254,619,950	149,647,936,201
IV. Non-operating income	40	13,078,715,184	8,840,501,323
V. Non-operating expenses	40	13,977,165,281	12,839,864,906
VI. Income before income tax expenses		131,356,169,853	145,648,572,618
VII. Income taxes expenses	38	24,840,806,746	34,347,218,460
VIII. Net income		106,515,363,107	111,301,354,158
IX. Other comprehensive income		44,913,164,114	278,823,163,761
<Items not reclassified subsequently to profit or loss>			
1. Revaluation surplus		959,894,466	845,644,632
2. Remeasurement of defined benefit liabilities		186,335,382	182,386,069

Deloitte.

Accounts	Notes	2015	2014
<Items reclassified subsequently to profit or loss>			
1. Gains (losses) on valuation of available-for-sale financial assets		(177,082,880,719)	249,147,063,398
2. Gains on valuation of HTM financial assets		224,152,120,581	—
3. Gains (losses) on valuation of derivatives		(3,857,505,154)	12,677,006,564
4. Separate account accumulated other comprehensive income		555,199,558	15,971,063,098
X. Total comprehensive income		151,428,527,221	390,124,517,919
XI. Net income attributable to:		106,515,363,107	111,301,354,158
Owner of parent company		98,706,277,247	96,610,376,554
Non-controlling interest		7,809,085,860	14,690,977,604
XII. Total comprehensive income is attributable to:		151,428,527,221	390,124,517,919
Owner of parent company		133,327,848,161	340,705,558,281
Non-controlling interest		18,100,679,060	49,418,959,638
XIII. Earning per share	39	7,267 won	7,112 won

See accompanying notes to consolidated financial statements.

Deloitte.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Account	Capital stock	Other paid-in capital: Paid-in capital in excess of par value	Other paid-in capital: Other capital surplus	Other components of equity	Retained earnings	Owner of the parent company	Non-controlling interests	Total
Balance at January 1, 2014	67,916,845,000	80,429,306,685	10,974,273,506	117,460,377,171	592,221,608,060	869,002,410,422	130,309,030,367	999,311,440,789
Change of accounting policies	—	—	—	7,035,738,163	(6,120,069,772)	915,668,391	253,394,246	1,169,062,637
Balance after changing of accounting policies	67,916,845,000	80,429,306,685	10,974,273,506	124,496,115,334	586,101,538,288	869,918,078,813	130,562,424,613	1,000,480,503,426
Net income	—	—	—		96,610,376,554	96,610,376,554	14,690,977,604	111,301,354,158
Gains on valuation of available-for-sale financial assets	—	—	—	215,782,674,228	—	215,782,674,228	33,364,389,170	249,147,063,398
Gains on valuation of derivatives	—	—	—	11,299,323,140	—	11,299,323,140	1,377,683,424	12,677,006,564
Separate account accumulated other comprehensive income	—	—	—	15,971,063,098	—	15,971,063,098	—	15,971,063,098
Revaluation surplus	—	—	—	845,644,632	—	845,644,632	—	845,644,632
Remeasurement of defined benefit liabilities	—	—	—	196,476,629	—	196,476,629	(14,090,560)	182,386,069
Others	—	—	—	235,074,588	(235,074,588)	—	—	—
Balance at December 31, 2014	67,916,845,000	80,429,306,685	10,974,273,506	368,826,371,649	682,476,840,254	1,210,623,637,094	179,981,384,251	1,390,605,021,345
Balance at January 1, 2015	67,916,845,000	80,429,306,685	10,974,273,506	368,826,371,649	682,476,840,254	1,210,623,637,094	179,981,384,251	1,390,605,021,345
Net income	—	—	—		98,706,277,247	98,706,277,247	7,809,085,860	106,515,363,107
Losses on valuation of available-for-sale financial assets	—	—	—	(155,656,166,503)	—	(155,656,166,503)	(21,426,714,216)	(177,082,880,719)
Gains on valuation of held-to-maturity financial assets	—	—	—	192,269,925,324	—	192,269,925,324	31,882,195,257	224,152,120,581
Losses on valuation of derivatives	—	—	—	(3,667,461,316)	—	(3,667,461,316)	(190,043,838)	(3,857,505,154)
Separate account accumulated other comprehensive income	—	—	—	555,199,558	—	555,199,558	—	555,199,558
Revaluation surplus	—	—	—	959,894,466	—	959,894,466	—	959,894,466
Remeasurement of defined benefit liabilities	—	—	—	160,179,385	—	160,179,385	26,155,997	186,335,382
Additional acquisition of subsidiaries	—	—	7,034,461,870	—	—	7,034,461,870	(19,308,450,613)	(12,273,988,743)
Balance at December 31, 2015	67,916,845,000	80,429,306,685	18,008,735,376	403,447,942,563	781,183,117,501	1,350,985,947,125	178,773,612,698	1,529,759,559,823

See accompanying notes to consolidated financial statements

Deloitte.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015, and 2014

Heungkuk Life Insurance Co., Ltd. and Subsidiaries (In Korean won)

Account	2015	2014
I. Cash flows from operating activities	1,345,050,410,063	1,345,050,410,063
Net Income	111,301,354,158	111,301,354,158
Adjustments (Note 43)	2,487,525,153,142	2,487,525,153,142
Change in assets and liabilities from operating activities (Note 43)	(2,031,091,935,334)	(2,031,091,935,334)
Interest received	766,526,611,738	766,526,611,738
Interest paid	(28,650,380,932)	(28,650,380,932)
Dividends Received	66,255,378,439	66,255,378,439
Payments of income taxes	(26,815,771,148)	(26,815,771,148)
II. Cash flows from investing activities	(3,195,260,299,504)	(1,276,908,191,696)
Proceeds from sale of available-for-sale financial assets	2,672,905,603,214	2,051,517,406,602
Redemption of held-to-maturity financial assets	490,610,253,510	—
Proceeds from sale of derivatives assets	765,952,761,109	21,435,694,445
Change in derivatives assets (liabilities)	—	24,593,576,904
Proceeds from sale of investment properties and property and equipment	308,766,929	776,278,000
Proceeds from sale of intangible assets	454,430,000	—
Decrease in deposits	13,665,464,544	12,220,447,380
Decrease in security deposits	—	206,200,000
Acquisition of available-for-sale financial assets	(4,456,974,519,949)	(3,344,089,459,794)
Acquisition of held-to-maturity financial assets	(1,844,965,828,323)	—
Increase in derivatives assets	(788,709,116,362)	(13,093,551,393)
Decrease in derivatives liabilities	—	(263,964,034)
Acquisition of investment properties and property and equipment	(25,631,859,079)	(12,269,882,284)
Acquisition of intangible assets	(7,938,885,684)	(2,635,193,250)
Increase in deposits	(14,359,524,413)	(13,618,141,166)
Increase in security deposits	—	(501,750,467)
Restoration expenditure	(577,845,000)	(1,185,852,639)
III. Cash flows from financing activities	27,944,081,825	112,812,371,096
Issuance of bonds	50,000,000,000	70,000,000,000
Additional acquisition of investments in subsidiaries	(12,261,127,500)	—
Increase (decrease) in non-controlling interests	(9,794,790,675)	42,812,371,096
IV. Increase in cash and cash equivalents (I + II + III)	117,922,618,199	180,954,589,463
V. Cash and cash equivalents at the beginning	373,272,230,826	192,316,382,361
VI. Effect of foreign exchange rate changes on cash and cash equivalents	—	1,259,002
VII. Cash and cash equivalents at the ending	491,194,849,025	373,272,230,826

See accompanying notes to consolidated financial statements

Heungkuk Life Insurance Co., Ltd. And Subsidiaries

1. GENERAL

Heungkuk Life Insurance Co., Ltd. ("the Company" or "the Group"), a controlling company under the Korean International Financial Reporting Standards ("K-IFRS") No.1110, was incorporated on May 21, 1950. The Group has 7 regional offices and 121 branches as at December 31, 2015, which are mainly engaged in personal insurance and related reinsurance contracts. Meanwhile, the headquarter of the Company is located in Saemunan-ro 68, Jongno-gu, Seoul.

As of December 31, 2015, insurance products that are on sale and insurance products for which new sales have been discontinued but contracts are maintained are as follows:

I. Life insurance segment

	Products		
Description	Available	Discontinued	Total
Individual annuity insurance	3	21	24
General annuity insurance	10	64	74
Other life insurance	11	6	17
Death insurance	11	239	250
Mixed insurance	5	59	64
Group insurance	6	13	19
Total	46	402	448

II. Non-life insurance segment

	Products		
Description	Available	Discontinued	Total
Annuity saving insurance	2	31	33
Individual annuity insurance	—	12	12
Long-term non-life insurance	47	642	689
Fire insurance	4	—	4
Marine insurance	24	—	24
Casualty insurance	158	—	158
Automobile insurance	12	1	13
Total	247	686	933

As of December 31, 2015, the paid-in capital of the Company is KRW 67,917 million, and the major shareholders are as follows:

Name of shareholder	Number of shares	Ownership
Lee, Ho Jin	7,647,981	56.31%
Lee, Won Jun	1,990,189	14.65%
Daehan Synthetic Fiber Co., Ltd.	1,416,646	10.43%
Ilju Academy and Culture Foundation	638,342	4.70%
Lee, Dong Jun	500,000	3.68%
Lee, Tae Jun	500,000	3.68%
Korea Book Promotions Co., Ltd.	395,147	2.91%
Lee, Jung Ah	247,532	1.82%
Lee, Sung Ah	247,532	1.82%
Total	13,583,369	100.00%

2. Significant Accounting Policies

(1) Basis of Preparation

The Company and its subsidiaries (the "Group") have prepared the consolidated financial statements in accordance with the Korean International Financial Reporting Standards ("K-IFRS").

The consolidated financial statements for the year ended December 31, 2015 are approved by the board of directors on February 24, 2016 and finalized at the shareholders' meeting on March 25, 2016.

The principal accounting policies are set out below. Except for the effect of the Amendments to K-IFRSs and new interpretations set out below, the principal accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2015 are consistent with the accounting policies used to prepare the consolidated financial statements as of and for the year ended December 31, 2014.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given.

1) Amendments to K-IFRSs and new interpretations that are mandatorily effective for the current year

Amendments to K-IFRS 1019 - Employee Benefits

The amendments permit the Company to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The application of the amendments has no significant impact on the Company's consolidated financial statements.

Annual improvements to K-IFRS 2010-2012 cycle

The amendments to K-IFRS 1102 (i) changes the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition', which were previously included within the definition of 'vesting condition.' The amendments to K-IFRS 1103. Business Combinations clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The application of these amendments has no significant impact on the disclosure in the Company's consolidated financial statements.

Annual improvements to K-IFRS 2011-2013 cycle

The amendments to K-IFRS 1103 clarify that it excludes the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself from the scope of K-IFRS 1103 - Business Combination. The amendments to K-IFRS 1113 - Fair Value Measurements and K-IFRS 1040 - Investment Properties exist. The application of these amendments has no significant impact on the disclosure in the Company's consolidated financial statements.

2) New and revised K-IFRSs in issue, but not yet effective

Amendments to K-IFRS 1001- Presentation of Financial Statements

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments to KIFRS 1001 are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1016 - Property, Plant and Equipment

The amendments to K-IFRS 1016 prohibit the Company from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 - Intangible Assets

The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of intangible assets, for which the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments apply prospectively for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1110 - Consolidated Financial Statements, K-IFRS 1112 - Disclosure of Interests in Other Entities and K-IFRS 1028 - Investment in Associates

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1111 - Accounting for Acquisitions of Interests in Joint Operations

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 - Business Combinations. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016

Amendments to K-IFRS 1109 - Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses and broadened types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1115 - Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduce a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018 - Revenue, K-IFRS 2113 - Customer Loyalty Programs, K-IFRS 2115 - Agreements for the Construction of Real Estate, K-IFRS 2118 - Transfers of Assets from Customers and K-IFRS 2031 - Revenue: Barter Transactions Involving Advertising Services. The amendments are effective for annual periods beginning on or after January 1, 2018

Annual improvements to K-IFRS 2012-2014 cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105 - Non-current Assets Held for Sale and Discontinued Operations for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change is considered as a continuation of the original plan of disposal and not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107 - Financial Instruments: Disclosures, KIFRS 1019 - Employee Benefits and K-IFRS 1034 - Interim Financial Reporting.

The Group is under the process of reviewing the effects of the above amendments on consolidated financial statements.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee, 2) is exposed, or has rights, to variable returns from its involvement with the investee, and 3) has the ability to use its power to affect its returns. The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

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 transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS1105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of: a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement, or K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 Impairment of Assets by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 Impairment of Assets to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Interests in Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(6) Goodwill

Goodwill resulting from an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill resulting from the acquisition of an associate is described at Note 2. (4).

(7) Revenue Recognition

1) Insurance premiums

Insurance premiums received in advance are deferred as unearned revenue at the time of receipt. As the contract matures, a proportionate share of the insurance premium is recognized as revenue over the coverage period. Overdue insurance premiums are not recognized at the end of the reporting period.

2) Dividend income and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably). Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that of the asset's net carrying amount on initial recognition.

Interest income on deposits, loans receivable, securities and others is recognized as earned. Interest income on uncollectible loans receivable, however, is recognized when cash is received since it is unlikely to be realized.

(8) Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), 'held-to-maturity ("HTM") financial assets, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies,

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the consolidated statement of comprehensive income.

3) HTM financial assets

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM financial assets. HTM financial assets are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

4) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM financial assets or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment includes:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset, or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(9) Financial Liabilities and Equity Instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancelation of the Company's own equity instruments.

3) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that is directly attributable to the issue of financial liabilities is deducted from the fair value of the financial liabilities on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

4) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

5) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

6) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(A) the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets; and

(B) the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue

7) Derecognition of financial liabilities

The Group derecognize financial liabilities when the Group's obligation are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(10) Loans and Receivables

Impairment losses on loans and receivables are calculated using the difference between the asset's book value and the estimated future cash flow (except for future impairment losses) discounted by the initial effective rate. For that, it is required to review individually whether there is objective evidence of potentials about the individually significant financial assets for the non-consolidation entity (specific assessment of allowance). In case of individually insignificant financial assets, they should be reviewed separately or collectively. If there is no objective evidence of the impairment losses as a result of case-by-case review, the financial assets should be reviewed collectively by including other similar risky financial assets (collective assessment of allowance).

1) Specific assessment of allowance

Specific assessment of allowance is based on the management's best estimation about present value of cash flow, which is expected to withdraw from the target of evaluation bond. When estimating the cash flow, it is required to consider all available information, such as the other party's financial situation, operational cash flow and net present value of related collateral.

2) Collective assessment of allowance

Collective assessment of allowance is deducted from the estimation model, which is based on the past empirical loss rate to estimate the inherent loss in the portfolio. That model is using probability of default (PD) of each asset and loss given default of collateral by considering adverse factors, such as a type of merchandise and the owner, credit rating, the size of portfolio, and a payback period. Also, a regular assumption is used to model the estimation of inherent loss and to determine the entry variable, which is based on the past experience and present situation. The method and assumption of that model is regularly reviewed to decrease the difference between estimation of allowance and the real loss.

(11) Derivative Financial Instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

1) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and economic characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(12) Fair Value

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1017 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in K-IFRS 1002 Inventories or value in use in K-IFRS 1036 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

(Level 1) inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
(Level 2) inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
(Level 3) inputs are unobservable inputs for the asset or liability.

(13) Property and Equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the below method based on the estimated useful lives of the assets as follows: Other property and equipment composed of paintings, writings and others are not depreciated.

Description	Useful lives	Depreciation
Buildings	20 ~ 60	Straight line method
Structures	40	Straight line method
Vehicles, office equipment, and rental store facilities	4 or 5	Declining balance method

If each part of an item of property and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method, the estimated useful lives and residual values of property and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(14) Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 20 ~ 60 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized

(15) Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

(16) Impairment of Fixed and Intangible Assets other than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its fixed and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(17) Foreign Currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Korean Won, which is the functional currency of the entity and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2 (11) below for hedging accounting policies);

(18) Retirement benefit costs and termination benefits

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(19) Acquisition Costs

Acquisition costs arising from long-term insurance contracts are deferred and amortized over the contract period or seven years, whichever is shorter. Acquisition costs arising from short-term insurance contracts whose contract period is shorter than one year are expensed in the current period. In case the actual expenditure is larger than the estimated amount, only the estimated amount is capitalized and the remainder is expensed in the current period. If additional premium ratio is relatively high in the beginning of the period for early recovery of the acquisition costs, the actual acquisition costs are expensed in the current period. When the period of premium payments is longer than seven years, the amortization period of deferred acquisition costs is seven years. When the contract is canceled, any unamortized portion as of the cancelation date (or the date it becomes invalid in case the contract becomes ineffective before cancelation date) is fully amortized in the fiscal year in which such cancelation occurs.

(20) Classification of Insurance Contracts and Investment Contracts

The Group estimated reserves for future expense, such as premium, reserve for outstanding claims, reserve for policyholders' dividend and others, for insurance contract and investment contract, which has discretionary participation feature (or without). The estimated reserve is based on insurance term, premium, and calculation method of insurance contract liabilities, the Insurance Business Act, K-IFRS 1104 and 1039 and other related regulations. The principal contents are as follows:

1) Classification of contracts

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) that adversely affects the policyholder occurs is classified as insurance contract. A contract that does not expose the insurer to significant insurance risk but exposes it to financial risk is classified as investment contract.

① Insurance contract

The significance of insurance risk is assessed on a contract-by-contract basis, by calculating the percentage of benefits with the amounts when the insured events have not occurred for additional benefits. The additional benefits refer to amounts that exceed those that would be payable if no insured event occurred. In case significance of insurance risk (proportion of the additional benefits) is higher than 10% (5% for contracts underwritten prior to April 1, 2013), the Company classifies a contract as an insurance contract for which insurance risk is considered significant. If a contract is classified as an insurance contract at the initial recognition, the contract remain as an insurance contract until all the rights and obligations are extinguished or expired. Even if the insurance risk becomes not-significant during the term of the contract, the contract will not be reclassified as an investment contracts.

② Investment contract

A contract that does not expose the insurer to significant insurance risk, but exposes it to financial risk, is classified as an investment contract. Financial risk means the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Investment contracts containing discretionary participation features are accounted for as insurance contract in accordance with K-IFRS 1104. Insurance Contracts, and investment contracts without discretionary participation features are accounted for as financial instruments in accordance with K-IFRS 1039.

2) Unbundling of deposit components

The deposit component of an insurance contract is unbundled when both the following conditions are met:

- the insurer can measure the deposit component (including any embedded surrender options) separately (i.e., without considering the insurance component); and
- the insurer's accounting policies do not otherwise require it to recognize all obligations and rights arising from the deposit component

Unbundling is permitted, but not required, if the insurer can measure the deposit component separately, but its accounting policies require it to recognize all obligations and rights arising from the deposit component, regardless of the basis used to measure those rights and obligations. Unbundling is prohibited if an insurer cannot measure the deposit component separately.

The Group has not recognized an unbundled deposit component, unless it has to be separated. To unbundle a contract, the Company applies K-IFRS 1104 to the insurance component and K-IFRS 1039 to the deposit component

3) Discretionary participation features

Certain insurance and investment contracts include discretionary participation features. Discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- that is likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that is contractually based on:
  - (A) the performance of a specified pool of contracts or a specified type of contract;
  - (B) realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - (C) The profit or loss of the Company and subsidiaries, fund or other entity that issues the contract.

Some insurance contracts contain a discretionary participation feature as well as a guaranteed element. The issuer of such a contract may, but need not, recognize the guaranteed element separately from the discretionary participation feature. The Company does not recognize them separately, but classifies the whole contract as a liability. The changes in the liability are recognized in profit or loss.

4) Embedded derivatives contained in insurance contract

The Group does not separate and measure the embedded derivatives if an embedded derivative is itself an insurance contract or there is a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate). Otherwise, the Company separates the embedded derivatives from their host contract and measures them at fair value and includes changes in their fair value in profit or loss.

(21) Reinsurance Assets

The Group concludes reinsurance agreements with reinsurance companies to transfer insurance risk arising from direct insurance contracts to them. The Group does not offset reinsurance assets against the related insurance liabilities and income or expense from reinsurance contracts against the expense or income from the related insurance contracts. The Group considers whether its reinsurance assets are impaired at the end of each reporting period. If a cedant's reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognize that impairment loss in profit or loss.

A reinsurance asset is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

(22) Insurance Contract Liabilities

The Company estimated reserves for future expense, such as premium, reserve for outstanding claims, reserve for policyholders' dividend and others, for insurance contract and investment contract, which has discretionary participation feature(or without). The estimated reserve is based on insurance term, premium, calculation method of insurance contract liabilities, Insurance Business Act, K-IFRS 1104 and K-IFRS 1039 and other related regulations. The principal contents are as follows:

1) Premium reserve

Premium reserve is a provision for expected insurance claims and related expenses to be paid based on the net premium method. Premium reserve is the amount accounted for using the standard interest rates and standard risk rates announced by the Financial Supervisory Services or the amount accounted for using the base rates applied on the date of computation of premium, whichever is larger. On the other hand, premium reserves are recorded as "zero (0)" if it is less than zero, and additional reserves required based on liability adequacy test performed in accordance with the K-IFRS 1104 are included in the premium reserves.

2) Reserve for outstanding claims

Reserve for outstanding claims is a provision for claims incurred, but not yet paid, and for claims not incurred and, therefore, not yet settled, whose insured events have occurred prior to the end of the reporting period.

① Individual estimated amount

Individually estimated amounts to be incurred in dispute or in litigation pertaining to policies whose events for payment of claims and others have arisen as of the end of each fiscal year. In case part of the insurance claims was paid, the remaining balance is to be reserved.

② Incurred but not reported ("IBNR")

Calculated as a certain percentage of the accumulated risk premium revenue for the last 12 months, ending at year-end of each fiscal period.

③ Reserve for elapsed contracts

Reserve for insurance contracts lapsed due to delay in premium payment, but still within the grace period providing reinstatement or retention right.

④ Insurance claims payable

Unpaid insurance claims, which were settled to be paid for insurance claims, cancelation refund, dividend and others.

Meanwhile, the Company reserves IBNR by the statistical method based on experience in accordance with the Regulations on Supervision of Insurance Business and the Enforcement Decree of the Insurance Business Act. IBNR is computed by subtracting the individual reserve estimate as of December 31, 2015, from the estimate of the total incurred claims amount, which has been projected in accordance with the chain ladder method based on the historical data of the paid claims for the last five years.

3) Reserve for unearned premium

Reserve for unearned premium refers to the premiums to be charged during subsequent periods, out of premiums whose payment dates have matured before the end of the reporting period. It is calculated according to the guideline for calculation of premium and policy reserve. Furthermore, the Company carries out the liability adequacy test based on K-IFRS 1104. If it is less, the Company increases the carrying amount of the relevant insurance liabilities.

4) Reserve for minimum guaranteed benefit

Reserve for minimum guarantee refers to amounts that are to guarantee a certain level of insurance. It is calculated by considering the future loss, according to the guideline for reserve for minimum guaranteed benefit. Furthermore, the Company carries out the liability adequacy test based on K-IFRS 1104. If it is less, the Company increases the carrying amount of the relevant insurance liabilities.

5) Reserve for policyholders' dividends and reserve for policyholders' profit dividend

The Group sells dividend insurance contracts and accounts for reserve for policyholders' dividends and reserve for policyholders' profit dividend with respect to the dividend. Policyholders' dividends schemes by the Article 6-13 of the Regulations on Supervision of Insurance Business are equivalent to discretionary participation features.

① Reserve for policyholders' dividends

In compliance with the Regulations on Supervision of Insurance Business, the Company provides reserve for excess crediting rate, reserve for mortality gain dividend, reserve for interest dividend, and reserve for operating expense dividend, reserve for long-term maintenance dividend and revaluation dividend reserve for the purpose of provisioning for reserve for policyholders' dividends.

Reserve for policyholders dividends equals the incurred reserve for policyholders' dividends added to reserve for policyholders' dividends for the subsequent year.

The incurred reserve for policyholders' dividends refers to the amount, which was settled but unpaid at the end of the reporting period. Reserve for policyholders 'dividends for the subsequent year refers to an estimate of policyholders' dividends for valid insurance contracts at the end of the reporting period calculated based on the estimated contract lapse rate.

② Reserve for policyholders' profit dividend

In accordance with the Supervisory Regulation on "Disposition of Surplus before Policyholders' Dividend Reserve," the Group initially accumulates reserve for losses on dividend insurance contracts and reserve for policyholders' dividend as expected, and reserve for policyholders' dividends for subsequent year from policyholders' equity. The balance is then allocated to reserve for policyholders' profit dividend. The policyholders' dividends not accruing on reserve for policyholders' dividends, newly accumulated at the end of the previous fiscal year, are added to reserve for policyholders' profit dividend accumulated at gross value.

The policyholders' dividend resulting in excess of reserve for policyholders' dividends, newly accumulated at the end of the previous fiscal year, is deducted from the reserve for policyholders' profit dividend accumulated at gross value prior to the current fiscal year end. The Group is required to appropriate reserve for policyholders' profit dividend, accumulated at gross value for its source of policyholders' dividend for individual policyholders, within five years from the end of the related fiscal year.

6) Reserve for reinsurance

For reinsurance assumed, the Group recognizes all insurance contract liabilities that are not recognized by the counterparty as a reserve for reinsurance premiums.

(23) Policyholders' Equity Adjustment

At the end of the reporting period, gains (losses) on valuation of investments in associates and AFS financial assets; and revaluation surplus on property and equipment (excluding amounts recognized in the statement of comprehensive income) that are subject to fair value measurement are classified into interest attributable to policyholders and interest attributable to shareholders based on a proportion ratio of average insurance contract liabilities of participating insurance and non-participating insurance for the fiscal year. Interest attributable to policyholders is included in the policyholder's equity adjustment.

(24) Separate Account Assets and Liabilities

The Group classifieds premiums and asset management for retirement insurance, retirement pension (an insurance that a group of employees are the insured and the beneficiaries. The insurer manages premium received and pays benefits as annuities or lump sum to employee(s) upon their retirement) variable insurance among accounts that are classified and managed by contract sold according to the Insurance Business Act. Assets and liabilities of separate accounts are recorded in "separate account assets" and "separate account liabilities" respectively and the gross amounts are recorded in the financial statements of the general account.

Revenues and expenses of participating-type separate accounts (i.e. variable whole life insurance, variable annuity life insurance, variable universal life insurance, variable universal whole life insurance, and retirement pension) are not recorded in the statement of comprehensive income of general account. On the other hand, revenues and expenses of guaranteed-interest-type separate accounts (i.e. retirement insurance and retirement pension) are recorded as revenues and expenses of the separate accounts and the gross amounts are recorded in the statement of comprehensive income of the general account.

The Group classifies the retirement insurances, the guaranteed-interest-type products, into variable interest type (which guarantees interest rates according to announced interest rates) and fixed interest type. In accordance with the Insurance Business Act, any operating losses on guaranteed-interest-type separate account will be deducted first from excess participating policyholder dividend reserve of the separate account; and any remaining losses will be covered by shareholders' interests of the general account. 10% of surplus from the special account is attributed to the shareholders of the general account, and 90% of the surplus is attributed to policyholders of the separate account. On the other hand, when funds are transferred between the separate account and the general account, receivables from (payables to) the separate account will be offset against the general account and net amount is recorded on separate account assets and separate account liabilities.

(25) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize 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.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(26) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(1) Main source of estimation uncertainty

Within the next fiscal year, for the carrying amounts of assets and liabilities that can lead to significant modifications and have significant risk factors at the end of the reporting period, the key assumptions concerning the future and other key sources of estimation uncertainty are as follows:

1) Defined benefit retirement plans

The Group operates a defined benefit retirement plan for its employees. Defined benefit obligations are calculated based on actuarial valuation method at the end of each reporting period. To apply actuarial valuation method, it requires to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs). Due to the uncertainty of the assumptions used, the amount of defined benefit retirement plans could be materially different from actual incurred payment in future periods. As of December 31, 2015, the defined benefit obligation is ₩ 403 million (2014: ₩ 505 million) and the details are disclosed in Note 21.

2) HTM financial assets

Management reviewed the HTM financial assets in terms of the Group's capital maintenance and liquidity requirements and has confirmed that the Group has the positive intent and ability to hold these assets until maturity. The carrying amount of the HTM financial assets is KRW 4,633,848 million. The details of HTM financial assets are described in Note 7.

3) Fair valuation of financial assets

As described in Note 4, the Group uses a valuation technique based on assumptions that are not supported by prices form observable current market to estimate fair value of specific financial assets. Management believes the valuation technique and assumptions that are used to determine fair value of financial assets are appropriate.

4) Allowance for doubtful accounts

Impairment losses on loans and receivables are reviewed in order to determine allowance for doubtful accounts. The accuracy of the allowance for potential credit losses is determined by estimated future cash flows as per borrower to estimate individual valuation allowance, and assumptions and variables of the model used to estimate collective valuation allowance.

5) Income taxes

In accordance with corporate income tax return, the Group may incur additional tax burden for three years starting from 2015, depending on the level of investment, personnel expenses, and dividends. Accordingly, the management is measuring the income tax effects of the Group, which are expected to be borne by the Group, in consideration of expected investments, increases in personnel expenses, and dividends. There is uncertainty about these estimates related to corporate income tax refunds.

4. Fair value of financial instruments

(1) The book value and fair value of financial instruments not carried to fair value as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	Financial instruments	December 31, 2015		December 31, 2014	
		Book value	Fair value	Book value	Fair value
Financial assets	Deposits	1,101,822	1,101,822	1,220,592	1,220,592
	HTM financial assets	4,633,848	4,633,848	—	—
	Loans	8,226,679	8,226,679	7,040,269	7,040,269
	Other financial assets	779,596	779,596	720,739	720,739
	Total	14,741,945	14,741,945	8,981,600	8,981,600
Financial liabilities	Borrowings	500,762	500,762	450,276	450,276
	Other financial liabilities	396,403	396,403	351,072	351,072
	Total	897,165	897,165	801,348	801,348

(2) Details of financial assets and financial liabilities that are measured at fair value at the end of the reporting period are as follows.

Fair value is the price that will be received when an asset is sold or the price that will be paid when the liability is transferred in a normal transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using valuation techniques. In estimating fair value of an asset or liability, the Group considers characteristics of the asset or the liability that market participants consider when determining the price of the asset or the liability. Except for lease transactions that are included in the scope of K-IFRS 1017 Leases, and measurements that are partially similar to fair value but are not fair value, such as the value in use of K-IFRS 1036 Impairment of Assets, fair value for measurement or disclosure purposes is determined according to the principles described above.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Level 1 to Level 3, based on the degree to which the fair value is observable, as described below:

(Level 1) Fair value measurements are those derived from quoted prices (unadjusted) in accessible active markets for identical assets or liabilities at the measurement date.

(Level 2) Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

(Level 3) Fair value measurements are those derived from valuation techniques that include unobservable inputs for the asset or liability.

Fair value measurements by fair value hierarchy level as of December 31, 2015 and 2014, are as follows:

December 31, 2015 (In millions of Korean won)

Description	Financial instruments	Level 1	Level 2	Level 3	Total
Financial assets	Financial assets at FVTPL	7,404	1,065,690	810,508	1,883,602
	AFS financial assets	23,065	7,236,034	2,292,768	9,551,867
	Derivative assets	—	12,894	7,664	20,558
	Total	30,469	8,314,618	3,110,940	11,456,027
Financial liabilities	Derivative liabilities	—	172,643	690	173,333

December 31, 2014 (In millions of Korean won)

Description	Financial instruments	Level 1	Level 2	Level 3	Total
Financial assets	Financial assets at FVTPL	7,783	1,187,737	629,477	1,824,997
	AFS financial assets	105,811	8,882,915	1,996,175	10,984,901
	Derivative assets	—	28,643	8,745	37,388
	Total	113,594	10,099,295	2,634,397	12,847,286
Financial liabilities	Derivative liabilities	—	54,219	1,044	55,263

The changes in financial instruments classified as Level 3 for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	Financial instruments	Beginning	Purchases	Sale	Amortization	Valuation	Impairment	Ending
Financial assets	Financial assets at FVTPL	629,477	324,702	(139,273)	—	(12,501)	8,103	810,508
	AFS financial assets	1,996,175	942,395	(679,573)	1,707	6,041	26,023	2,292,768
	Derivative assets	8,745	1,618	(3,215)	—	516	—	7,664
	Total	2,634,397	1,268,715	(822,061)	1,707	(5,944)	34,126	3,110,940
Financial liabilities	Derivative liabilities	1,044	—	—	—	(354)	—	690

Description	Financial instruments	Beginning	Purchases	Sale	Amortization	Valuation	Impairment	Ending
Financial assets	Financial assets at FVTPL	755,516	178,627	(311,709)	—	7,043	—	629,477
	AFS financial assets	1,370,987	546,909	(14,866)	(1,677)	94,822	—	1,996,175
	Derivative assets	9,662	2,530	(4,093)	—	646	—	8,745
	Total	2,136,165	728,066	(330,668)	(1,677)	102,511	—	2,634,397
Financial liabilities	Derivative liabilities	145	1,044	—	—	(145)	—	1,044

(3) The equity securities measured at cost of KRW 109,226 million and KRW 27,353 million as of December 31, 2015 and 2014, whose fair values cannot be reliably measured and do not have quoted market prices in an active market.

(4) The following is a description of valuation techniques and input variables used in fair value measurement of financial instruments classified as Level 2 and Level 3.

- Government and Public Bonds, Finance Debentures, Corporate bonds, Commercial Papers, and Bonds with Warrants

Fair value of government and public bonds, finance debentures, corporate bonds, commercial papers, and bonds with warrants is determined using the discounted cash flow model, which applies the discount curve, the coupon rate, the remaining maturity, and the credit rating determined based on the yield curve derived from the market interest rate at the end of the reporting period. Such fair value measurements were classified as Level 2 in the fair value hierarchy.

- Bonds denominated in foreign currencies

Fair value of bonds denominated in a foreign currency is determined using the discounted cash flow model, which applies interest rates per currency calculated from the rate of return on Treasury, IRS and CRS; and credit risk measured by using credit rating, market trading information and CDS spread. Such fair value measurements were classified as Level 2 in fair value hierarchy.

- Mortgage Backed Securities ("MBS")

Fair value of MBS is determined by the discounted cash flow method that calculates the weighted-average expected maturity of the MBS with early repayment. Discount rate used for cash flow discounts is determined based on matrix-based YTM and credit spreads, which are calculated through observing the issuer's creditworthiness of bonds subject to the fair value measurement and transactions of bonds with similar maturities. The fair value of the MBS with floating rate note ("FRN") is calculated by determining the future payment interest following the calculation of Implied Forward Rate of the benchmark interest rate. Because forward interest rate, which is a significant input variable for mortgage-backed securities, is derived based on information available in the market, the Group classified the fair value measurements of the mortgage-backed securities as Level 2 in the fair value hierarchy.

- Optional Bonds

Fair value of optional bond is measured by using the Hull and White model, in which short-term interest rate is estimated and expected cash flows are discounted at a discount rate that reflects the credit spread. Regression coefficient and volatility coefficient are used to estimate the discount rate used in the Hull and White model and these variables are estimated by calibrating current market interest rate term structure and volatility data. The Group, therefore, classified the fair value measurements of optional bonds as Level 3 in the fair value hierarchy.

- Derivatives Linked Securities and Derivative Linked Bonds

Fair value is determined by using the Finite Difference Method ("FDM") of the Partial Differential Equation ("PDE") derived from the Black-Scholes model. The fair value of the derivatives linked securities that cannot be measured by the Black Scholes model is calculated by applying the Monte Carlo simulation technique to generate future stock price scenarios, and then discounting weighted average of the future cash flows of the equity linked securities for each scenario at discounted rate that reflects the creditworthiness of the issuer. In order to generate future share price scenarios, it is necessary to estimate expected return on underlying asset, underlying asset volatility, and a correlation coefficient between underlying assets (if there are two or more underlying assets). The volatility that is used to measure the fair value of derivatives linked securities uses implied volatility, and the correlation coefficient is estimated using historical stock price data. Because the volatility of and the correlation coefficient of the underlying assets, which is a significant input variables for derivatives linked securities and derivative linked bonds, correspond to inputs that are not observable in the market (level 3 inputs, the Group classified the fair value measurements as Level 3 in the fair value hierarchy.

- Structured Notes ("SN")

Fair value of SN is measured by applying the Monte Carlo simulation method using the Hull and White model. Expected cash flows for each scenario are developed along with future interest rate and these cash flows are discounted using a discount rate that reflects credit spread of the issuer. Regression coefficients and coefficient of variation are required to estimate interest rates using the Hull-White model and these parameters are estimated based on the current market's term structure and volatility data. Interest rate coefficient of variation and interest rate regression coefficients correspond to inputs that are not observable in the market (Level 3 inputs). The Group classified the fair value measurements as Level 3 in the fair value hierarchy because the effect of interest rate coefficients of variation and interest rate regression coefficients on the fair value of structured notes is significant.

- Credit Linked Note (“CLN”)

Fair value of CLN is measured by using the Hull and White Model that uses correlation coefficients between reference assets. Expected cash flows are developed by multiplying expected cash flow of Derivatives-linked Securities (“DLS”)) by FTD survival probability, which reflects survival probability of the reference assets and the issuer as well as the correlation coefficient of them. The expected cash flows are then discounted to present value and added up to calculate the fair value. Amount of losses incurred due to the occurrence of a credit issue on reference assets and issuers is assumed to be 40% of the seniority normally applied in the credit derivatives market. Discount rate used to measure fair value is determined using a yield curve derived from interest rate announced in the market at the end of the reporting period. Correlation coefficients between references assets correspond to inputs that are not observable in the market (Level 3 input variables). The fair value measurements, therefore, were classified as level 3 in the fair value hierarchy.

- Hybrid Securities

Fair value of hybrid securities is measured by using the Hull and White One Factor Model. Short rates are estimated and expected cash flows are discounted at a rate that reflects credit spread. Since the discount rate used in the Hull and White One Factor Model is calculated using the curve based on the hybrid security rating, the Group classified fair value measurements of hybrid securities as Level 3 in the fair value hierarchy.

- Currency Forward, Currency Swap (“CRS”) and Interest Rate Swap (“IRS”)

The fair value of currency forward are measured based on a forward rate applicable for the remaining period of the currency forward to be measured, and the forward rate is quoted in the market at the end of the reporting period. In case that the forward rates are not available at the end of the reporting period, a interpolation method is applied to forward rates for each period quoted in the market in order to estimate the forward rate required for the fair value measurement. A discount rate used to measure the fair value of currency forward are based on the interest rate parity and it calculates CRS interest rate back using the forward rates and spot rates that the fair value measurement is based on.

Discount rates and forward interest rates used in fair value measurements of CRSs and IRSs are determined based on an applicable yield curve derived from interest rates announced in the market at the end of reporting period. Foreign exchange rates used in the CRSs are the exchange rates at the end of the reporting period. The fair value of the CRSs is measured by discounting and offsetting its future cash flows at an appropriate discount rate based on the forward interest rates and the closing exchange rates derived from the above method. On the other hand, expected cash flows are developed based on the forward interest rates derived from the above method and the expected cash flows are then discounted at an appropriate rate to measure the fair value of the IRSs.

As described above, input variables used in the fair value measurements of the currency forwards, CRSs, and IRSs are derived from the forward rates, the spot rates, and the yield curve that are observable in the market. Therefore, the Group classified fair value measurements of currency forwards, CRSs, and IRSs as Level 2 in the fair value hierarchy.

- Consideration for Stock Warrants

The fair value of consideration for stock warrants is measured using the option pricing model. Stock volatility, which is a significant input variable used to measure the fair value of the warrants, is estimated based on historical stock price changes. Estimated stock volatility based on historical data does not reflect the expectations of market participants at the end of the reporting period for future share price fluctuations and therefore is a non-observable input variable (level 3 input variable) in the market. The Group has determined that the effect of price volatility on the option value is significant and classified the fair value measurements of the conversion rights consideration as Level 3 in the fair value hierarchy.

- Unlisted Stocks

The fair values of unlisted stocks are measured using a discounted cash flow model, in which some assumptions that are not based on observable market prices or rates such as revenue growth, pre-tax operating profit margin and weighted average cost of capital ("WACC") are used to estimate future cash flows. WACC used to discount the future cash flows is calculated using the Capital Asset Pricing Model ("CAPM"). The Group has determined that the effects of above assumptions and estimations on the fair values of the unlisted stocks is significant and therefore classified the fair value measurements of the unlisted stocks as Level 3 in the fair value hierarchy.

(5) Transfers between levels are recognized at the time the event occurred. In addition, there are no changes in valuation techniques used in fair value measurement of financial instruments that are classified as Level 2 and Level 3 during the current fiscal period.

(6) The following table illustrates quantitative information on fair value measurements using significant but non-observable input variables and the relationship between non-observable input variables and fair value measurements.

Description	Fair Value	Fair value measurements	Unobservable inputs	Range (Weighted average)
Financial assets	3,110,940	Discounted cash flow/ Net asset value assessment Comparable analysis / Use of past transactions histories	Discount rate	6.68% ~ 8.68%
		Binominal Model	Discount rate	0.4
		Monte Carlo Simulation	Growth rate Discount rate	0.00% 6.22%
		Poisson Model	CDS PAR spread Correlation coefficient	0.088~1.87 0.5, 0.8
		Black-Scholes Model	Stock volatility	1.13%~21.41%
		Hull & White Model	Regression coefficient	0.0065
		Monte Carlo Simulation	Interest rate volatility	0.45% ~ 18.97%
Financial liabilities	690	Hull & White Model	Interest rate volatility	Treasury Bond:1.469% ~ 2.252% AA rage Bond:1.639% ~ 2.944%

5. CATEGORIES OF FINANCIAL INSTRUMENTS

Categories of financial instruments as of December 31, 2015 and 2014, consist of the following:

(1) Financial assets

(December 31, 2015) (In millions of Korean won)

Description	Financial assets held for trading	Financial assets at FVTPL	Loans and receivables	AFS financial assets	HTM financial assets	Hedged derivative instruments	Total
Deposits	—	—	1,101,822	—	—	—	1,101,822
Securities	1,029,178	854,424	—	9,661,093	4,633,848	—	16,178,543
Loans	—	—	8,226,679	—	—	—	8,226,679
Derivative assets	1,567	10,397	—	—	—	8,594	20,558
Other financial assets	—	—	779,596	—	—	—	779,596
Total	1,030,745	864,821	10,108,097	9,661,093	4,633,848	8,594	26,307,198

(December 31, 2014) (In millions of Korean won)

Description	Financial assets held for trading	Financial assets at FVTPL	Loans and receivables	AFS financial assets	HTM financial assets	Hedged derivative instruments	Total
Deposits	—	—	1,220,592	—	—	—	1,220,592
Securities	1,134,196	690,801	—	11,012,254	—	—	12,837,251
Loans	—	—	7,040,269	—	—	—	7,040,269
Derivative assets	1,753	10,135	—	—	—	25,500	37,388
Other financial assets	—	—	720,739	—	—	—	720,739
Total	1,135,949	700,936	8,981,600	11,012,254	—	25,500	21,856,239

(2) Financial Liabilities

(December 31, 2015) (In millions of Korean won)

Accounts	Financial liabilities at FVTPL	Hedged derivative instruments	Financial liabilities carried at amortized cost	Total
Borrowings	—	—	500,762	500,762
Derivative liabilities	1,321	172,012	—	173,333
Other financial liabilities	—	—	396,403	396,403
Total	1,321	172,012	897,165	1,070,498

(December 31, 2014) (In millions of Korean won)

Accounts	Financial liabilities at FVTPL	Hedged derivative instruments	Financial liabilities carried at amortized cost	Total
Borrowings	—	—	450,276	450,276
Derivative liabilities	2,438	52,825	—	55,263
Other financial liabilities	—	—	351,072	351,072
Total	2,438	52,825	801,348	856,611

(3) Maturity analysis of financial assets as of December 31, 2015 and 2014, is as follows (In millions of Korean won):

	December 31, 2015			December 31, 2014		
Accounts	Less than one year	One year or more	Total(*3)	Less than one year	One year or more	Total(*3)
Debt securities	1,015,200	9,494,612	10,509,812	719,508	7,246,527	7,966,035
Overseas securities(*1)	168,812	2,487,557	2,656,369	68,878	1,333,491	1,402,369
Loans(*2)	385,591	6,329,503	6,715,094	552,872	5,069,752	5,622,624
Total	1,569,603	18,311,672	19,881,275	1,341,258	13,649,770	14,991,028

(*1) Bond-type overseas securities are subject to calculation.
(*2) Policy loans are excluded.
(*3) Based on the face value of financial assets

6. CASH AND CASH EQUIVALENTS, AND DEPOSITS

(1) Cash and cash equivalents and deposits as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Cash and cash equivalents		
Cash and demand deposits	109,562	92,703
CMA and others	381,633	280,569
Subtotal	491,195	373,272
Deposits		
Time deposits	980,163	1,199,391
Others	121,659	21,201
Subtotal	1,101,822	1,220,592
Total	1,593,017	1,593,864

(2) Details of restricted deposits as of December 31, 2015, and 2014, are as follows (In millions of Korean won).

Accounts	Financial institutions	December 31, 2015	December 31, 2014	Reason for restrictions
Ordinary deposits	KEB Hana Bank	5,554	5,554	Establishment of a pledge right related to lease
Checking deposits	KEB Hana Bank	8	8	Opening current account
Total		5,562	5,562	

7. SECURITIES

(1) Details of securities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Accounts	December 31, 2015	December 31, 2014
Financial assets at FVTPL	1,883,602	1,824,997
AFS financial assets	9,661,093	11,012,254
HTM financial assets	4,633,848	—
Total	16,178,543	12,837,251

(2) Details of financial assets at FVTPL as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Trading securities		
Stocks	7,404	7,783
Special bonds	99,967	—
Corporate bonds	75,029	151,961
Equity securities-beneficiary certificates	591,328	437,354
Overseas securities	—	21,402
Other securities	255,450	515,696
Subtotal	1,029,178	1,134,196
Financial assets designated as at FVTPL		
Stocks	102,252	105,239
Financial bonds	22,063	—
Corporate bonds	104,389	—
Overseas securities	55,106	110,748
Other securities	570,614	474,814
Subtotal	854,424	690,801
Total	1,883,602	1,824,997

(3) Details of AFS financial assets as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description		December 31, 2015	December 31, 2014
Equity securities	Stocks	103,997	91,700
	Investments	15,991	30,091
	Beneficiary certificates	2,011,394	1,481,972
	Overseas securities	—	238
	Subtotal	2,131,382	1,604,001
Debt securities	Government and public bonds	309,231	692,120
	Special bonds	922,401	2,469,536
	Financial bonds	1,016,645	1,547,563
	Corporate bonds	2,345,990	3,003,429
	Overseas securities	2,558,916	1,235,719
	Other securities	376,528	459,886
	Total	9,661,093	11,012,254

(4) Changes in gain or loss on valuation of AFS financial assets for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

December 31, 2015

Accounts	Beginning	Valuation	Profit or loss	Transfer	Impairment	Ending
Stocks	27,480	574	(1,583)	—	—	26,471
Investments	127	(774)	(56)	—	—	(703)
Government and public bonds	92,977	43,018	(1,441)	(119,248)	—	15,306
Special bonds	143,351	58,796	(15,036)	(142,124)	—	44,987
Financial bonds	63,631	32,561	(7,574)	(41,357)	—	47,261
Corporate bonds	119,804	43,613	(16,625)	(83,961)	—	62,831
Beneficiary certificates	19,912	2,231	(734)	—	—	21,409
Overseas securities	60,258	(36,603)	(1,664)	—	—	21,991
Other securities	15,089	1,438	(10,109)	—	—	6,418
Subtotal	542,629	144,854	(54,822)	(386,690)	—	245,971
Deferred tax effect	(109,117)					(50,970)
The amount after deducting deferred tax effect	433,512					195,001
The amount allocated to policyholders' equity adjustments	85,769					24,341
The amount allocated to shareholders' equity adjustments	292,142					136,485
The amount allocated to Non-controlling Interest	55,601					34,175
Total	433,512					195,001

December 31, 2014

Accounts	Beginning	Valuation	Profit or loss	Transfer	Impairment	Ending
Stocks	26,243	10,349	(9,112)	—	—	27,480
Investments	2,854	(579)	(2,189)	—	41	127
Government and public bonds	50,690	44,675	(2,388)	—	—	92,977
Special bonds	53,444	98,762	(8,855)	—	—	143,351
Financial bonds	(16,674)	81,163	(858)	—	—	63,631
Corporate bonds	(1,784)	125,887	(4,299)	—	—	119,804
Beneficiary certificates	13,528	6,744	(582)	—	222	19,912
Overseas securities	30,247	30,647	(636)	—	—	60,258
Other securities	(9,975)	25,594	(530)	—	—	15,089
Subtotal	148,573	423,242	(29,449)	—	263	542,629
Deferred tax effect	(28,453)					(109,117)
The amount after deducting deferred tax effect	120,120					433,512
The amount allocated to policyholders' equity adjustments	21,524					85,769
The amount allocated to shareholders' equity adjustments	76,359					292,142
The amount allocated to non-controlling Interest	22,237					55,601
Total	120,120					433,512

(5) Details of impairment losses on AFS financial assets for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Accounts	2015	2014
Equity securities	—	2,457
Debt securities	1,193	—
Total	1,193	2,457

(6) Details of HTM financial assets as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Accounts	2015	2014
Government and public bonds	856,656	—
Special bonds	2,001,504	—
Financial bonds	528,250	—
Corporate bonds	1,247,438	—
Total	4,633,848	—

During the year ended December 31, 2015, the Group changed its AFS financial assets of KRW 3,289,844 million as HTM financial assets. Reclassification to HTM financial assets has been measured at the fair value on the reclassification date. Unrealized gain or loss on AFS financial assets (accumulated other comprehensive income) related to the reclassified debt securities is reclassified to gain or loss on AFS financial assets substitution of HTM financial assets (accumulated other comprehensive income); and is amortized over remaining life of the debt securities using the effective interest rate method.

As of December 31, 2015, the Group has HTM financial assets including loans amounting to KRW 46,800 million. A securities lending is a transaction that pledges to return the same amount of securities after a certain period and transfers the ownership. The Group has not been able to meet derecognition conditions for the transfer of the financial asset and therefore continues to recognize it as an asset of the Group.

(7) Changes in gain or loss on valuation of HTM financial assets for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Accounts	Beginning	Valuation	Profit or loss	Substitution	Amortization	Ending
Government and public bonds	—	—	—	119,248	(8,603)	110,645
Special bonds	—	—	—	142,124	(11,015)	131,109
Financial bonds	—	—	—	41,357	(4,873)	36,484
Corporate bonds	—	—	—	83,961	(8,320)	75,641
Subtotal	—	—	—	386,690	(32,811)	353,879
Deferred tax effect	—					(70,500)
The amount after deducting deferred tax effect	—	—	—	386,690	(32,811)	283,379
The amount allocated to policyholders' equity adjustments	—					59,227
The amount allocated to shareholders' equity adjustments	—					192,270
The amount allocated to non-controlling interest	—					31,882
Total	—	—	—	—	—	283,379

8. STATUS OF SUBSIDIARIES

(1) Details of status of subsidiaries as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

	Name of company	Main operating activity	Location	Closing date	Ownership December 31, 2015	Ownership December 31, 2014
Subsidiaries	Heungkuk Fire & Marine Insurance Co., Ltd.	Insurance	Korea	12/31	60%	55%
Beneficiary certificates(*1)	Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	Collective investment schemes (real estate)	Korea	12/31	60%	60%
	Heungkuk Market Leaders Private Securities No.2	Collective investment schemes (security)	Korea	11/1	100%	100%
	Darby HANA BTL Special Asset Trust Fund II	Collective investment schemes(real estate)	Korea	1/4	66%	66%
	Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	Collective investment schemes(security)	Korea	6/3	63%	64%
	Heungkuk Global Private Placement Special Asset Investment Trust No.1	Collective investment schemes(security)	Korea	11/18	69%	69%
	Darby HANA Renewable Energy Special Asset Trust Fund	Collective investment schemes(real estate)	Korea	1/4	71%	71%
	Heungkuk Highclass Private Bond Trust 1	Collective investment schemes(security)	Korea	10/2	100%	100%
	Korea investment Private KP Securities Investment Trust No.6	Collective investment schemes(security)	Korea	4/17	100%	100%

(*1) In accordance with the K-IFRS 1110, the Group comprehensively considers the K-IFRS' controlling elements: "power", "income fluctuation", and a "relation between power and income fluctuation" when determining whether the Group has control over an entity. If the Group judges that it has control over an entity, the entity is subject to the consolidation.

(2) The summary financial information of subsidiaries (before elimination of internal transactions) as of December 31, 2015 and 2014, is as follows (in millions of Korean won):

(2015)

Subsidiaries	Total assets	Total liabilities	Total equity	Operating income	Net income (losses)	Comprehensive income
Heungkuk Fire & Marine Insurance Co., Ltd.	8,975,966	8,533,890	442,076	4,226,188	18,051	40,452
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	53,191	500	52,691	2,332	1,771	1,771
Heungkuk Global Private Placement Special Asset Investment Trust No.1	66,711	5,740	60,971	6,070	4,050	4,050
Heungkuk Market Leaders Private Securities No.2	7,174	74	7,100	1,813	(134)	(134)
Darby HANA BTL Special Asset Trust Fund II	52,253	30	52,223	2,487	2,160	2,160
Darby HANA Renewable Energy Special Asset Trust Fund	17,704	13	17,691	1,342	1,279	1,279
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	18,111	5	18,106	2,224	1,340	1,340
Heungkuk Highclass Private Bond Trust 1	4	44	(40)	—	(1)	(1)
Korea investment Private KP Securities Investment Trust No.6	34,285	315	33,970	4,901	1,475	1,222

(2014)

Subsidiaries	Total assets	Total liabilities	Total equity	Operating income	Net income (losses)	Comprehensive income
Heungkuk Fire & Marine Insurance Co., Ltd.	7,694,165	7,292,583	401,582	3,812,052	32,779	107,149
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	48,973	364	48,609	2,155	2,043	2,043
Heungkuk Global Private Placement Special Asset Investment Trust No.1	79,610	1,306	78,304	582	144	144
Heungkuk Market Leaders Private Securities No.2	7,267	33	7,234	789	(84)	(84)
Darby HANA BTL Special Asset Trust Fund II	54,372	31	54,341	2,579	2,240	2,240
Darby HANA Renewable Energy Special Asset Trust Fund	29,435	21	29,414	977	880	880
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	15,634	2	15,632	—	(100)	(100)
Heungkuk Highclass Private Bond Trust 1	4	44	(40)	—	(1)	(1)
Korea investment Private KP Securities Investment Trust No.6	33,255	426	32,829	4,407	1,496	1,938

9. LOANS AND RECEIVABLES

(1) Details of loans and receivables as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Loans principal	8,237,998	7,049,722
Present value discount	(56)	(74)
LOCF	12,175	11,628
Allowance	(23,438)	(21,007)
Subtotal	8,226,679	7,040,269
Other receivables principal	815,664	744,856
Present value discount	(10,581)	(13,265)
Allowance	(25,487)	(10,852)
Subtotal	779,596	720,739
Total	9,006,275	7,761,008

(2) Details of types of loans as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Call loans	516	1,775
Policy loans	1,522,904	1,427,098
Loans secured by securities	35,000	35,000
Loans secured by real estates	2,216,776	1,928,133
Unsecured loans	1,991,548	1,568,561
Loans secured by third party guarantees	34,368	24,058
Other loans	2,436,886	2,065,097
Total (*1)	8,237,998	7,049,722

(*1) Loans are classified based on the principal of the loans.

(3) Details of receivables as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Account	Description	December 31, 2015	December 31, 2014
Reinsurance assets	Loans principal	241,924	244,232
Insurance receivables	Loans principal	235,881	176,981
	Allowance	(3,940)	(3,665)
	Subtotal	231,941	173,316
Other receivables	Loans principal	29,914	13,876
	Allowance	(21,019)	(6,391)
	Subtotal	8,895	7,485
Accrued income	Loans principal	205,857	210,168
	Allowance	(497)	(441)
	Subtotal	205,360	209,727
Leasehold and other Deposits	Loans principal	102,088	99,599
	Present value discount	(10,582)	(13,265)
	Allowance	(30)	(355)
	Subtotal	91,476	85,979
	Total	836,621	779,596

(4) Details of loans that are impaired and overdue as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description(*2)	December 31, 2015	December 31, 2014
Loans that are neither past due, nor impaired	8,020,814	6,824,888
Loans past due, but not impaired	173,595	185,075
Impaired loans	43,589	39,759
Total	8,237,998	7,049,722

(*2) The amounts were classified as principal of loans.

(5) Changes in allowance for doubtful loans and receivables for the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

Description	December 31, 2015			December 31, 2014		
	Loans	Receivables	Total	Loans	Receivables	Total
Beginning balance	21,007	10,852	31,859	24,511	9,912	34,423
(±)Increase (decrease) in allowance	6,097	14,823	20,920	829	2,063	2,892
(+)Recovery	506	—	506	271	—	271
(-)Written-off	(6,527)	(188)	(6,715)	(2,944)	(1,123)	(4,067)
(+)Other	3,318	—	3,318	—	—	—
(-)Unwinding	(963)	—	(963)	(1,660)	—	(1,660)
Ending balance	23,438	25,487	48,925	21,007	10,852	31,859

(6) Changes in LOCF on loans for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Description	Beginning	Increase	Amortization (recovery)	Ending
LOCF	11,628	7,231	(6,685)	12,174

(2014)

Description	Beginning	Increase	Amortization (recovery)	Ending
LOCF	12,028	6,221	(6,621)	11,628

10. DERIVATIVES AND RISK HEDGING ACCOUNTING

The Group uses derivatives 1) to hedge uncertainties in fair value of bonds and cash flows, and 2) to trade interest rate options for the asset - liability management as well as others in hopes of generating a profit from changes in basic indexes such as exchange rates and interest rates. Interest rate swaps and currency swaps are used in order to hedge fair value and cash flow risk arising from fluctuations in foreign exchange rates and interest rates on bonds held by the Group.

(1) Details of assets and liabilities by type of derivative as of December 31, 2015 and December 31, 2014 are as follows (In millions of Korean won):

Description		December 31, 2015				December 31, 2014			
		Trading		Hedging		Trading		Hedging	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Currency	Currency forward	93	301	2,635	33,271	81	413	410	12,539
	Currency swap	—	303	4,498	138,741	—	692	24,608	40,286
Interest rate	Interest rate options	1,723	—	1,461	—	2,666	—	—	—
Index	Stock index options	5,097	—	—	—	5,925	—	—	—
Credit	Credit options	2,628	717	—	—	1,513	76	—	—
other	Derivatives-linked securities	2,423	—	—	—	2,185	1,257	—	—
	Total	11,964	1,321	8,594	172,012	12,370	2,438	25,018	52,825

(2) Details of gains and losses on derivative instruments for the years ended December 31, 2015 and 2014 are as follows (In millions of Korean won):

Description		2015		2014	
		Trading	Hedging	Trading	Hedging
Related currency	Forward exchange	(1,469)	(39,402)	(811)	(17,344)
	Currency swap	513	(119,757)	2,001	(45,543)
Interest rate	Interest rate options	2,122	672	992	1,495
Index	Stock index options	643	—	(5,565)	—
Credit	Credit options	474	—	661	—
Others	Derivatives-linked securities	1,559	—	(586)	—
	Total	3,842	(158,487)	(3,308)	(61,392)

(3) Details of gains and losses on valuation of hedges derivatives on accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows (In millions of Korean won):

(2015)

Description	Beginning	Gain (loss)	Valuation	Ending
Gains and losses on valuation of hedges derivatives	11,876	(5,679)	804	7,001
Income tax effect	(2,735)	1,352	(144)	(1,527)
Balance after deducting income tax effect	9,141	(4,327)	660	5,474

(2014)

Description	Beginning	Gain (loss)	Valuation	Ending
Gains and losses on valuation of hedges derivatives	(3,404)	(1,801)	17,081	11,876
Income tax effect	1,246	426	(4,407)	(2,735)
Balance after deducting income tax effect	(2,158)	(1,375)	12,674	9,141

(4) Details of securities provided as collaterals for derivative transactions as of December 31, 2015, are as follows (USD in thousand dollars, KRW in millions):

Presentee	Bond type	Unit	Face value
Deutsche Bank and others	KP (Woori Bank and others), etc.	USD	77,500
Kookmin Bank and others	Government and public bonds and others	KRW	698,218

11. INSURED ASSETS

The Group carries fire insurance for buildings, etc., covered up to KRW 13,566 million in Hanwha Insurance Co., Ltd. The Group also carries comprehensive insurance and liability insurance for vehicles.

12. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

(1) Details of property and equipment, investment property and intangible assets as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

December 31, 2015

Accounts	Description	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
Property and equipment	Land	226,670	—	—	226,670
	Buildings	100,450	(31,647)	—	68,803
	Vehicles	208	(174)	—	34
	Furniture and equipment	102,672	(86,977)	—	15,695
	Other properties and equipment	936	—	—	936
	Installations	6,734	(3,667)	—	3,067
	Construction in progress	2,541	—	—	2,541
	Total	440,211	(122,465)	—	317,746
Investment property	Land	447,334	—	—	447,334
	Buildings	239,887	(61,026)	—	178,861
	Total	687,221	(61,026)	—	626,195
Intangible assets	Goodwill	81,187	—	—	81,187
	Software	80,781	(60,492)	—	20,289
	Development costs	8,003	(2,652)	—	5,351
	Membership	31,722	(16,203)	(1,191)	14,328
	Total	201,693	(79,347)	(1,191)	121,155

December 31, 2014

Accounts	Description	Acquisition cost	Accumulated depreciation	Accumulated impairment	Book value
Property and equipment	Land	203,993	—	—	203,993
	Buildings	95,277	(29,543)	—	65,734
	Vehicles	208	(136)	—	72
	Furniture and equipment	96,793	(82,956)	—	13,837
	Other properties and equipment	936	—	—	936
	Installations	4,873	(2,992)	—	1,881
	Total	402,080	(115,627)	—	286,453
Investment property	Land	470,262	—	—	470,262
	Buildings	236,035	(55,772)	—	180,263
	Total	706,297	(55,772)	—	650,525
Intangible assets	Goodwill	81,187	—	—	81,187
	Software	75,705	(53,100)	—	22,605
	Development costs	9,531	(5,838)	—	3,693
	Membership	32,600	(13,483)	(1,541)	17,576
	Total	199,023	(72,421)	(1,541)	125,061

(2) Changes in property and equipment, investment property and intangible assets for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Accounts	Description	Beginning	Acquisition	Disposal	Transfer	Depreciation	Other	Impairment	Ending
Property and equipment	Land	203,993	—	—	22,677	—	—	—	226,670
	Buildings	65,734	4,957	—	460	(2,348)	—	—	68,803
	Vehicles	72	—	—	—	(38)	—	—	34
	Furniture and equipment	13,837	11,641	—	—	(9,783)	—	—	15,695
	Other properties and equipment	936	—	—	—	—	—	—	936
	Installations	1,881	2,677	(314)	—	(1,345)	168	—	3,067
	Construction in Progress	—	9,034	—	(6,493)	—	—	—	2,541
	Sub total	286,453	28,309	(314)	16,644	(13,514)	168	—	317,746
Investment property	Land	470,262	—	(251)	(22,677)	—	—	—	447,334
	Buildings	180,263	—	(1,903)	6,033	(5,532)	—	—	178,861
	Sub total	650,525	—	(2,154)	(16,644)	(5,532)	—	—	626,195
Intangible assets	Goodwill	81,187	—	—	—	—	—	—	81,187
	Software	22,605	4,521	—	555	(7,392)	—	—	20,289
	Development cost	3,693	3,418	—	—	(1,760)	—	—	5,351
	Membership	17,576	—	(345)	—	(2,986)	—	83	14,328
	Sub total	125,061	7,939	(345)	555	(12,138)	—	83	121,155

(2014)

Accounts	Description	Beginning	Acquisition	Disposal	Transfer	Depreciation	Other	Impairment	Ending
Property and equipment	Land	196,700	—	—	7,293	—	—	—	203,993
	Buildings	59,914	240	—	7,614	(2,034)	—	—	65,734
	Vehicles	153	—	—	—	(81)	—	—	72
	Furniture and equipment	12,761	9,081	(33)	—	(7,972)	—	—	13,837
	Other properties and equipment	936	—	—	—	—	—	—	936
	Installations	1,230	—	(23)	—	(815)	1,488	—	1,880
	Sub total	271,694	9,321	(56)	14,907	(10,902)	1,488	—	286,452
Investment property	Land	477,231	684	(360)	(7,293)	—	—	—	470,262
	Buildings	191,597	2,265	(377)	(7,614)	(5,608)	—	—	180,263
	Sub total	668,828	2,949	(737)	(14,907)	(5,608)	—	—	650,525
Intangible assets	Goodwill	81,187	—	—	—	—	—	—	81,187
	Software	26,987	1,341	—	2,212	(7,935)	—	—	22,605
	Development cost	3,925	1,294	—	—	(1,526)	—	—	3,693
	Membership	20,557	—	—	—	(2,991)	—	10	17,576
	Sub total	132,656	2,635	—	2,212	(12,452)	—	10	125,061

(3) As of December 31, 2015, the appraisal value of the land is KRW 510,304 million. The rental income and operating expenses for investment property for the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

Description	2015	2014
Rental income	30,465	35,732
Operating expense (Investment property that generated rental income)	20,285	17,416
Operating expense (Investment property that did not generate rental income)	2,230	1,242

(4) Collateralized Assets

As of the end of the reporting period, the land and buildings of the Group are subject to a mortgage and leasehold rights to KRW 12,588 million and KRW 15,668 million, respectively.

13. OTHER FINANCIAL ASSETS

(1) Details of other financial assets as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Reinsurance assets	241,924	244,232
Insurance receivables	231,941	173,316
Other account receivables	8,895	7,485
Accrued income	205,359	209,727
Leasehold and other deposits	91,477	85,979
Total	779,596	720,739

(2) Changes in reinsurance assets for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Description	Beginning	Decrease (*)	Ending
Reinsurance assets	244,232	(2,308)	241,924

(2014)

Description	Beginning	Increase (*)	Ending
Reinsurance assets	232,116	12,116	244,232

(*) There are no impairment losses on reinsurance assets for the years ended December 31, 2015 and 2014. Changes in reinsurance assets are recognized as provision for insurance contract liabilities in the consolidated statements of comprehensive income.

(3) Details of accrued income as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Interest on deposits	19,673	38,031
Interest on securities	140,021	130,211
Interest on loans	34,019	30,929
Dividend income	11,759	9,383
Others	384	1,614
Allowance	(497)	(441)
Total	205,359	209,727

14. OTHER ASSETS

(1) Details of other assets as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Acquisition costs	1,435,368	1,446,760
Prepaid expenses	3,264	6,434
Advanced payments	2,358	2,737
Compensation receivables	4,048	3,878
Total	1,445,038	1,459,809

(2) Changes in acquisition costs for the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

(2015)

Description	Beginning	Increase	Decrease	Ending
Acquisition costs	1,446,760	598,589	(609,981)	1,435,368

(2014)

Description	Beginning	Increase	Decrease	Ending
Acquisition costs	1,460,991	592,878	(607,109)	1,446,760

15. INSURANCE CONTRACT LIABILITIES

(1) Details of insurance contract liabilities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Account	Description	December 31, 2015	December 31, 2014	Reserve (recovery) 2015	Reserve (recovery) 2014
Premium reserve	Endowment	11,932,362	10,395,354	1,537,008	1,274,337
	Term	6,129,794	5,360,315	769,479	552,904
	Mixed	6,534,552	4,972,824	1,561,728	823,507
	Group	62,122	63,614	(1,492)	(1,025)
Subtotal		24,658,830	20,792,107	3,866,723	2,649,723
Reserve for outstanding claims	Endowment	248,034	242,980	5,054	29,897
	Term	80,820	75,644	5,176	669
	Mixed	65,427	59,411	6,016	6,893
	Group	3,238	3,083	155	(264)
	IBNR	279,492	225,159	54,333	42,775
	General	53,197	72,935	(19,738)	(41,499)
	Vehicle	62,508	66,339	(3,831)	(3,255)
Subtotal		792,716	745,551	47,165	35,216
Reserve for unearned premium	Endowment	5,911	2,663	3,248	(4,434)
	Term	349	419	(70)	54
	Mixed	6	10	(4)	(1)
	Group	113	37	76	16
	General	69,941	62,344	7,597	(2,676)
	Vehicle	147,860	133,030	14,830	620
Subtotal		224,180	198,503	25,677	(6,421)
Reserve for minimum guaranteed benefit		65,162	54,334	10,828	8,785
Reserves for policyholders' dividends	Endowment	59,048	55,009	4,039	5,651
	Term	15,023	15,945	(922)	350
	Mixed	4,681	5,797	(1,116)	(569)
	Group	387	478	(91)	30
Subtotal		79,139	77,229	1,910	5,462
Reserve for policyholders' profit dividends		11,097	13,685	(2,588)	(5,909)
Reserve for loss preservation		6,240	4,106	2,134	863
Total		25,837,364	21,885,515	3,951,849	2,687,719

(2) Details of reserve for policyholders' dividends as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Account	Description	December 31, 2015	December 31, 2014	Reserve (recovery) 2015	Reserve (recovery) 2014
	Endowment	9,978	9,739	239	96
Reserve for excess crediting rate	Term	241	258	(17)	(31)
	Mixed	101	159	(58)	(130)
	Group	1	1	—	(1)
Subtotal		10,321	10,157	164	(66)
	Endowment	6,793	7,460	(667)	(449)
Reserve for mortality gain dividend	Term	9,760	10,375	(615)	491
	Mixed	2,012	2,520	(508)	(307)
	Group	281	351	(70)	27
Subtotal		18,846	20,706	(1,860)	(238)
	Endowment	29,406	23,943	5,463	4,801
Reserve for interest dividends	Term	300	329	(29)	(42)
	Mixed	329	403	(74)	16
	Group	7	10	(3)	(4)
Subtotal		30,042	24,685	5,357	4,771
	Endowment	12,642	13,629	(987)	1,220
Reserve for operating expense dividend	Term	4,714	4,973	(259)	(67)
	Mixed	2,146	2,611	(465)	(139)
	Group	98	116	(18)	8
Subtotal		19,600	21,329	(1,729)	1,022
	Endowment	229	238	(9)	(18)
Reserve for long-term maintenance dividend	Term	8	9	(1)	(2)
	Mixed	93	105	(12)	(7)
	Group	—	—	—	—
Subtotal		330	352	(22)	(27)
Total		79,139	77,229	1,910	5,462

16. INSURANCE CONTRACT LIABILITIES AND INVESTMENT CONTRACT LIABILITIES

Details of insurance contract liabilities and investment contract liabilities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description		December 31, 2015	December 31, 2014
General account	Insurance contract liabilities	25,837,364	21,885,516
Separate account	Insurance contract liabilities	1,416,947	1,445,642
	Investment contract liabilities	1,318,225	947,726
	Subtotal	2,735,172	2,393,368
Total		28,572,536	24,278,884

The insurance contract liabilities of the general account are presented as insurance contract liabilities in the financial statements whereas insurance contract liabilities of separate accounts are presented as insurance contract liabilities in the financial statements of separate accounts.

17. LIABILITY ADEQUACY TEST

I. Life Insurance Segment

(1) Object of liability adequacy test

As of December 31, 2015, insurance contracts and contracts contain discretionary participation features are subject to liability adequacy test. The insurance contract liabilities that are subject to liability adequacy test are the contracts subject to the test, and premium reserve and unearned premium reserve at the same date. Premium reserve is the amount of net premium reserve deducting unamortized acquisition cost.

(2) Assumption and basis as of December 31, 2015

Description	Applied assumption	Basis
Discount rate	Average 4.2%	Use rate of return on future invested assets as a discount rate. ❊ Basis of calculation for rate of return on future invested assets: The best estimate of the rate of return per invested asset reflecting historical performance and future investment strategies.
Business expense rates	Acquisition costs	For the items such as the sundry allowance, operating expenses, policy fee, and affiliate fee, last one year experience is aggregated for each channel and calculated by the elapsed period according to the source of the conversion premium.
	Administration expenses	Calculated by channel and by commodity group after the deduction of one-time expenses among indirect costs that occurred during the previous year.
Cancelation rate		Calculate the cancelation rates by channel, individual/group, inclination, and delivery date based on the experience statistics for the last five years. Cancelation rate calculated for the year is applied for the first twelve years, and the 12th-year cancelation rate is applied after twelve years.
Ratio of risk		Calculate the rate of risk by channel, individual/group, inclination, and delivery date based on the experience statistics for the last five years.

(3) Liability adequacy test is assessed by each insurance contract types, which are floating-rate insurance type and fixed-rate insurance type. Premium surplus and deficiency according to insurance types and result of liability adequacy test as of December 31, 2015, are as follows:

Description		Premium deficiencies (surplus)
Fixed-rate insurance	Dividend paid insurance	778,588
	Non-dividend paid insurance	161,186
Floating-rate insurance	Dividend paid insurance	(23,290)
	Non-dividend paid insurance	(1,327,571)
Variable life insurance		(108,035)
Total		(519,122)

Premium deficiency is recognized within the limit of the total premium surplus. As a result, additional accounting by liability adequacy test did not occur as of December 31, 2015.

II. Non-life Insurance Segment

(1) The key assumptions and methods of liability adequacy assessment for the non-life insurance segment are as follows:

Description		December 31, 2015	December 31, 2014	Basis
Long-term and annuity	Discount rate	2.8 ~ 4.9%	1.8% ~ 4.3%	Calculate the entity-wide rate of return on future invested assets following classification into new assets and holding assets
	Business ratio	6.5 ~ 494%	6.4% ~ 460%	Calculate unit cost as per application of business regulation; contract; proportion of premium; proportion of coverage based on operating expenses for the FY2014 • Selling expenses: Calculate based on sales regulations per sales channel by classifying proportional fees/non-proportional fees/other acquisition costs. • Maintenance expenses: Calculate unit cost of fixed and variable costs per sales channel/product group by dividing personnel expense/general administrative expenses/claim adjustment expenses.
	Continuous rate	48.5 ~ 98.4%	44% ~ 100%	Based on recent 5-year experience statistics, calculate the ratio of maintenance premiums to premiums received.
	Loss ratio	20.4 ~ 681%	14% ~ 599%	Based on recent 5-year experience statistics, calculate the rate of loss incurred to risk premium by subdividing into risk unit.

Description		December 31, 2015	December 31, 2014	Basis
		3.59%	3.38%	The rate of claim adjustment expense to earned premium is calculated using a loss ratio once the ratio of claim adjustment expense to insurance claims is calculated by analyzing according to each major category described in the standard business method manual, based on recent 1-year experience statistics.
General	Business ratio	12.36%	15.83%	Based on recent 1-year experience statistics, calculate the ratio of general administrative expenses to premiums received by analyzing each major category described in the standard business method manual.
	Loss ratio	49.16%	47.76%	Based on the recent 5-year experience statistics, calculate the ratio of final loss to earned premium by analyzing each major category described in the standard business method manual.
	Rate of claim adjustment expense	6.94%	7.08%	The rate of claim adjustment expense to earned premium is calculated using a loss ratio once the ratio of claim adjustment expense to insurance claims is calculated by analyzing each major category described in the standard business method manual, based on recent 1-year experience statistics.
Vehicle	Business ratio	9.73%	10.75%	Based on recent 1-year experience statistics, calculate the ratio of general administrative expenses to premiums received by analyzing each major category described in the standard business method manual.
	Loss ratio	80.11%	78.69%	Based on the recent 5-year experience statistics, calculate the ratio of final loss to earned premium by analyzing each major category described in the standard business method manual.

(2) Details of insurance contract amounts by insurance contract type and results of liability adequacy assessment as of December 31, 2015 are as follows (in millions of Korean won):

Description		Premium reserves and unearned premium reserve(*)	LAT base amount (*)	LAT deficit (surplus
Long-term - annuity	Fixed interest rate with dividends	9,139	10,484	1,345
	Fixed interest rate without dividends	191,638	198,897	7,259
	Floating interest rate with dividends	235,261	234,870	(391)
	Floating interest rate without dividend	6,127,715	4,452,041	(1,675,674)
	Sub total	6,563,753	4,896,292	(1,667,461)
Automobile		147,861	143,094	(4,767)
General		69,315	45,129	(24,186)

(*) Prepaid but unearned premium reserves were excluded from long-term and annuity insurance while the automobile and general insurance were calculated based on original unearned premium reserves.

In the non-life insurance segment, there is no accounting treatment resulting from the liability adequacy assessment as of the end of the reporting period.

18. POLICYHOLDERS' EQUITY ADJUSTMENTS

Details of policyholders' equity adjustments as of December 31, 2015 and 2014, are as follows (In millions of Korean won).

Description	December 31, 2015	December 31, 2104
Net change in fair value of AFS financial assets	24,341	85,768
Net change in fair value of HTM financial assets	59,227	—
Net change in property revaluation surplus(*)	6,011	7,271
Total	89,579	93,039

(*) The Company uses fair value in its opening K-IFRS statement of financial position as deemed cost for an item of property and equipment, an investment property.

Aggregate property revaluation surplus is allocated into policyholders' equity and shareholders' equity based on the portion of average insurance contracts liability of dividend insurance policies and non-dividend insurance policies for the fiscal year.

19. BORROWINGS

(1) Borrowings as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Private placement bond	301,390	250,969
Public bond	199,372	199,307
Total	500,762	450,276

(2) Details of bonds issued by the Group as of December 31, 2015 are as follows (In millions of Korean won):

Description	Contract date	Maturity date	Interest rate	December 31, 2015	December 31, 2014	Repayment method
Subordinated unguaranteed private placement bond	2012.9.26	2018.4.29	4.85%	100,000	100,000	A lump sum payment at maturity
	2013.3.4	20191.4	CD91+256bp	40,000	40,000	
	2013.9.30	2019.7.30	5.50%	31,390	30,969	
	2013.9.30	2019.7.30	CD91+284bp	5,000	5,000	
	2013.9.30	2019.7.30	CD91+284bp	5,000	5,000	
	2014.9.29	2020.7.29	5.50%	40,000	40,000	
	2014.9.29	2021.9.29	5.70%	20,000	20,000	
	2014.9.29	2020.7.29	5.50%	10,000	10,000	
	2015.6.30	2023.4.30	5.40%	40,000	—	
	2015.6.30	2023.4.30	5.40%	10,000	—	
Sub total				301,390	250,969	
Subordinated unguaranteed public bond	2013.10.10.	2023.10.10	5.00%	199,372	199,307	A lump sum payment at maturity
Total				500,762	450,276	

There are no assets or guarantees provided as collaterals for the above borrowings.

20. SEPARATE ACCOUNTS

(1) Separate account assets and liabilities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Separate account assets before netting	2,797,345	2,464,396
Separate account payables before netting	(326,842)	(235,115)
Separate account assets after netting	2,470,503	2,229,281
Separate account liabilities before netting	2,780,873	2,448,479
Separate account receivables before netting	(20,813)	(16,990)
Separate account liabilities after netting	2,760,060	2,431,489
Other comprehensive income of separate accounts	16,472	15,917

(2) Statements of financial position of separate accounts as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
<Assets>		
I. Cash and cash equivalents and deposits	82,012	104,159
II. Securities	2,121,974	1,895,884
III. Loans	244,136	203,755
IV. Other assets	22,382	25,483
V. Other receivables on general accounts	326,841	235,115
Total assets	2,797,345	2,464,396
<Liabilities>		
I. Other liabilities	24,888	38,121
II. Other payables on general accounts	20,813	16,990
III. Insurance contract liabilities	1,416,947	1,445,642
IV. Investment contract liabilities	1,318,225	947,726
Total liabilities	2,780,873	2,448,479
<Other comprehensive income>	16,472	15,917
Liabilities and other comprehensive income	2,797,345	2,464,396

(3) Income statements of separate accounts for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015		December 31, 2014	
	Trust accounts guaranteeing the repayment of principal	Performance based trust accounts	Trust accounts guaranteeing the repayment of principal	Performance based trust accounts
<Revenue>				
Premium income	—	213,799	2,636	263,952
Interest income	28,656	16,645	19,396	22,287
Dividend income	4,677	9,911	2,282	8,574
Gain on disposal and valuation of securities	3,366	140,164	3,498	96,494
Gain on disposal and valuation of derivatives	662	32,709	383	24,151
Gain on exchange differences	291	477	21	174
Other income	8,842	188,928	2,611	169,011
Total	46,494	602,633	30,827	584,643
<Expenses>				
Change in reserves for insurance contracts	23,719	(27,644)	17,005	(57,845)
Insurance claims paid	828	232,174	3,666	264,435
Minimum guarantee fee	—	5,563	—	5,497
Separate account commission	10,797	55,156	7,134	52,623
Commission expense	134	4,796	10	4,573
Loss on sale and valuation of securities	279	110,315	14	120,995
Loss on sale and valuation of derivatives	7,124	35,312	2,336	25,483
Loss on exchange differences	13	1,381	9	1,757
Other expenses	3,600	185,580	653	167,125
Total	46,494	602,633	30,827	584,643

Revenue and expenses on performance-based separate accounts (variable insurance contract) are not reflected in the general account's comprehensive income statement. However, revenue and expenses on separate accounts guaranteeing the repayment of principal are accounted for as separate account revenue and expenses in the general account comprehensive statement of income.

(4) Restricted separate account assets as of December 31, 2015, are as follows (In millions of Korean won):

Description	Restricted assets
Indemnity Index Balanced Fund	126
Variable annuity II in type of Bond	249
Variable annuity II Index Balanced Fund	252
Variable annuity II Index Growth Balanced Fund	903
Variable annuity II Growth Balanced Fund	1,404
Variable annuity II Index Balanced Fund II	126
Variable annuity II Index Growth Balanced Fund II	518
Variable annuity II i-Pacific Asia Balanced Fund	614
Variable annuity II Invest Asia Balanced Fund	1,661
Retirement pension Index Balanced Fund	37
Variable universal in type of Bond	249
Total(*)	6,139

(*) Provided as substitute securities for futures and options.

21. NET DEFINED BENEFIT LIABILITIES

(1) Actuarial assumptions used as of December 31, 2015 and 2014, are as follows:

Description	December 31, 2015	December 31, 2014
Discount rate	2.10%~2.40%	2.40%~3.6%
Expected salary increase rate	10.00%	10.00%

(2) The amounts recognized in the separate statements of financial position related to net defined benefit liabilities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Present value of defined benefit obligations	2,091	2,634
Fair value of plan assets	(1,688)	(2,129)
Net defined benefit liabilities	403	505

(3) Changes in net defined benefit liabilities (assets) for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Description	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning	2,634	(2,129)	505
Current service cost	973	—	973
Interest expense (income)	44	(45)	(1)
Subtotal	3,651	(2,174)	1,477
Remeasurement elements	(279)	34	(245)
Return on plan assets (excluded from the above interest income)	—	(13)	(13)
Subtotal	3,372	(2,153)	1,219
Contributions by employer	—	(572)	(572)
Benefits paid	(1,129)	992	(137)
Transfer in (out)	(152)	45	(107)
Ending balance	2,091	(1,688)	403

(2014)

Description	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning	2,749	(2,132)	617
Current service cost	919	—	919
Interest expense (income)	91	(84)	7
Subtotal	3,759	(2,216)	1,543
Remeasurement elements	(288)	49	(239)
Return on plan assets (excluded from the above interest income)	—	—	—
Subtotal	3,471	(2,167)	1,304
Contributions by employer	—	(941)	(941)
Benefits paid	(979)	979	—
Transfer in (out)	142	—	142
Ending balance	2,634	(2,129)	505

Business expenses and investment administrative expenses included in the statements of comprehensive income are KRW 787 million and KRW 172 million (prior year: KRW 878 million and KRW 48 million), respectively. Revenues from plan assets during the years ended December 31, 2015 and 2014 are KRW 30 million and KRW 35 million, respectively.

(4) Fair value of the plan assets as of December 31, 2015 and 2014, is as follows (in millions of Korean won):

Description	December 31, 2015	December 31, 2014
Principal-and-interest-guaranteed financial instruments, etc.	1,688	2,129

(5) The following tables describe the effects on the defined benefit obligations if significant actuarial assumptions are changed within the reasonable and possible scope, assuming that all other assumptions remain unchanged as of December 31 2015 (in millions of Korean won):

(2015)

Description	1% Up	1% Down
Changes in discount rate	2,001	2,190
Changes in expected salary increase rate	2,182	2,006

(2014)

Description	1% Up	1% Down
Changes in discount rate	2,534	2,744
Changes in expected salary increase rate	2,735	2,540

22. OTHER FINANCIAL LIABILITIES

Details of other financial liabilities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Insurance claims payables	235,617	166,245
Other payables	53,128	65,673
Accrued expenses	58,841	65,380
Deposits received	6,736	6,813
Guarantee deposits	43,153	48,085
(Present value discount)	(1,072)	(1,124)
Total	396,403	351,072

23. PROVISIONS

Changes in provisions for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Description	Beginning	Increase	Decrease	Ending
Provision for recovery	5,514	3,011	(1,114)	7,411
Provisions for guarantee of debts	1,811	683	(137)	2,357
Total	7,325	3,694	(1,251)	9,768

(2014)

Description	Beginning	Increase	Decrease	Ending
Provision for recovery	4,936	1,883	(1,305)	5,514
Provisions for guarantee of debts	224	1,596	(9)	1,811
Total	5,160	3,479	(1,314)	7,325

24. OTHER LIABILITIES

Details of other liabilities as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Advance receipts	3,331	1,281
Unearned income	12,604	14,236
Unearned insurance premiums	277,570	112,348
Liabilities of the period of prescription (*1)	14,765	14,958
Provision for suicide, disaster and death liabilities (*2)	2,542	2,585
Provision for incomplete sale (*3)	4,373	—
Other liabilities	70,450	76,683
Total	385,635	222,091

(*1) Estimated amount of future payments calculated as a liabilities of the period of prescription about the insurance reimbursement of the completion insurance contract.

(*2) Estimated amount of future payments about the payment of the insurance payment for the suicide accident death arrangement is calculated as suicide disaster death liabilities and there is a possibility that the amount of money will change in the future.

(*3) It includes amounts expected to be paid in the future for refunds due to Card Shurans incomplete sales and may be reversed due to the possibility of future payment.

25. CAPITAL STOCK AND ADDITIONAL PAID-IN CAPITAL

(1) Details of capital stock as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Number of shares authorized	50,000,000 shares	50,000,000 shares
Par value (won)	5,000	5,000
Number of shares issued	13,583,369 shares	13,583,369 shares
Capital stock	67,917	67,917

(2) Details of additional paid-up capital as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Stock paid-in capital in excess of par value	80,429	80,429
Other capital surplus	18,009	10,974
Total	98,438	91,403

26. OTHER CAPITAL ITEMS

Details of other capital items as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Net change in fair value of AFS financial assets	136,485	292,142
Net change in fair value of HTM financial assets	192,270	—
Net change in fair value of derivatives for hedging	5,474	9,141
Other comprehensive income of separate accounts	16,472	15,916
Net change in property revaluation surplus(*)	52,155	51,195
Remeasurements of net defined benefit liabilities	592	432
Total	403,448	368,826

(*) The Group uses fair value in its opening K-IFRS separate statement of financial position as deemed cost for an item of property and equipment, an investment property.

Aggregate property revaluation surplus is allocated into policyholders' equity and shareholders' equity based on the portion of average insurance contracts liability of dividend insurance policies and non-dividend insurance policies for the fiscal year.

27. RETAINED EARNINGS

(1) Details of retained earnings as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	December 31, 2015	December 31, 2014
Legal reserve	4,258	4,258
Reserve for business stabilization	17,501	17,501
Catastrophe reserve	2,321	—
Reserve for bad debts	36,340	32,121
Unappropriated retained earnings	720,763	628,597
Total	781,183	682,477

(2) Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate a minimum of 10% of annual cash dividends declared as a legal reserve until such reserve equals 50% of its capital stock issued. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(3) Reserve for Bad Debts

The Group accumulated the shortage as reserve for bad debts because the recognized allowance for doubtful accounts was less than the requirement in accordance with the Regulations on Supervision of Insurance Business. The reserve for bad debts and income after the bad debt reserve for the years ended December 31, 2015 and 2014, is as follows (in millions of Korean won):

Description	2015	2014
Net income attributable to owner of the parent company	98,706	96,610
Bad debt reserve	(-)4,218	(-)5,060
Net income after reserve (*)	94,488	91,550
Net income per share after reserve (*)	6,956 won	6,740 won

(*) The amount is the income and income per share after reserve that the Company estimated reserve before considering the effect of deferred income tax and distribution of equity to policyholders.

28. GAINS(LOSSES) BY CATEGORY OF FINANCIAL INSTRUMENTS

Gains (losses) by category of financial instruments for the years ended December 31, 2015 and 2014, are as follows

(1) Gains by category of financial instruments

(2015) (In millions of Korean won)

Account	Description	Interest income (*)	Dividend income	Gains on sale and valuation	Gains on exchange differences	Total
Cash and cash equivalents and deposits		43,416	—	—	21,529	64,945
Loans and receivables	Loans	362,876	—	3,758	19,730	386,364
	Receivables	—	—	—	1,194	1,194
Securities	Financial assets at FVTPL	29,275	6,075	26,188	9,556	71,094
	AFS financial assets	280,822	77,291	61,946	127,072	547,131
	HTM financial assets	121,813	—	93	—	121,906
Derivative instruments		—	—	35,585	—	35,585
Total		838,202	83,366	127,570	179,081	1,228,219

(*) It is different from the interest income in the statement of comprehensive income due to interests on overdue premiums.

(2014) (In millions of Korean won)

Account	Description	Interest income(*)	Dividend income	Gains on sale and valuation	Gains on exchange differences	Total
Cash, cash equivalents and deposits		54,275	—	—	31,482	85,757
Loans and receivables	Loans	319,542	—	—	11,909	331,451
	Receivables	—	—	—	948	948
Securities	Financial assets at FVTPL	38,558	5,654	27,199	4	71,415
	AFS financial assets	357,527	54,096	56,863	46,642	515,128
Derivative instruments		—	—	33,922	—	33,922
Total		769,902	59,750	117,984	90,985	1,038,621

(2) Losses by category of financial instruments

(2015) (In millions of Korean won)

Account	Description	Interest Expenses	Bad debt expenses	Losses on disposal and valuation	Impairment losses	Losses on exchange differences	Totals
Cash, cash equivalents and deposits		—	—	—	—	3,495	3,495
Loans and receivables	Loans	—	6,331	—	—	—	6,331
	Receivables	—	15,094	—	—	355	15,449
Securities	Financial assets at FVTPL	—	—	20,799	—	—	20,799
	AFS financial assets	—	—	5,417	1,193	8,680	15,290
	HTM financial assets	—	—	68	—	—	68
Derivative instruments		—	—	190,230	—	—	190,230
Borrowing liabilities		24,058	—	—	—	—	24,058
Total		24,058	21,425	216,514	1,193	12,530	275,720

(2014) (In millions of Korean won)

Account	Description	Interest expenses	Bad debt expenses	Losses on disposal and valuation	Impairment losses	Losses on exchange differences	Totals
Cash, cash equivalents and deposits		—	—	—	—	11,853	11,853
Loans and receivables	Loans	—	546	—	—	545	1,091
	Receivables		1,679			40	1,719
Securities	Financial assets at FVTPL	—	—	6,537	—	311	6,848
	AFS financial assets	—	—	3,485	2,457	4,514	10,456
Derivative instruments		—	—	98,622	—	—	98,622
Borrowing liabilities		20,157	—	—	—	—	20,157
Total		20,157	2,225	108,644	2,457	17,263	150,746

29. PREMIUM INCOME

Premium income for the years ended December 31, 2015 and 2014, is as follows (In millions of Korean won):

Description	Type of insurance	2015	2014
Individual	Endowment, Term, Mixed insurance	7,564,613	6,034,923
	General insurance	136,001	141,106
	Car insurance	274,964	251,469
	Subtotal	7,975,578	6,427,498
Group	Group insurance	5,785	753
Total		7,981,363	6,428,251

30. REINSURANCE INCOME AND EXPENSES

Reinsurance income and expenses for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Description	Type	Reinsurance premium income (expense)	Reinsurance claims received (paid)	Reinsurance commission income (expense)	Changes in reinsurance assets	Total
Reinsurance income	Individual	—	565,883	24,888	—	590,771
	Group	—	—	—	—	—
Total		—	565,883	24,888	—	590,771
Reinsurance expenses	Individual	580,966	—	450	6,983	588,399
	Group	—	—	—	—	—
Total		580,966	—	450	6,983	588,399

(2014)

Description	Type	Reinsurance premium income (expense)	Reinsurance claims received (paid)	Reinsurance commission income (expense)	Changes in reinsurance assets	Total
Reinsurance income	Individual	—	485,194	22,737	12,417	520,348
	Group	—	—	—	—	—
Total		—	485,194	22,737	12,417	520,348
Reinsurance expenses	Individual	519,325	—	2,180	101	521,606
	Group	—	—	—	—	—
Total		519,325	—	2,180	101	521,606

31. OTHER INCOME

Other income for the years ended December 31, 2015 and 2014, is as follows (In millions of Korean won):

Description	2015	2014
Commission income	14,013	6,109
Dividend income	83,366	59,750
Rental income	30,465	35,732
Others	11,787	8,053
Total	139,631	109,644

32. CLAIMS PAID

Claims paid for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	2015	2014
Benefit payments	1,346,190	1,185,066
Refunds	2,330,133	2,189,367
Dividend expenses	7,602	6,180
Total	3,683,925	3,380,613

33. COMPENSATION RECEIVABLES

Compensation receivables for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

(2015)

Description	General	Long-term	Vehicle	Guarantee	Total
beginning	582	322	2,974	—	3,878
Increase (decrease)	216	428	(474)	—	170
Ending	798	750	2,500	—	4,048

(2014)

Description	General	Long-term	Vehicle	Guarantee	Total
beginning	662	209	4,313	135	5,319
Increase (decrease)	(80)	113	(1,339)	(135)	(1,441)
Ending	582	322	2,974	—	3,878

34. BUSINESS EXPENSES

Business expenses for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won)

Description	Detail	2015	2014
Acquisition costs	Proportional allowance	355,696	386,122
	Store operating costs	29,350	26,009
	Sales promotion expenses	59,420	58,301
	Other	344,985	259,230
	Subtotal	789,451	729,662
	Deferred policy acquisition costs	(598,589)	(592,878)
	Total	190,862	136,784
Administration expenses	Salaries and wages	79,492	73,002
	Severance benefits	7,284	6,190
	Employee benefits	10,464	9,559
	Rent	17,555	16,775
	Computing	21,228	19,630
	Communication expenses	8,059	7,866
	Other	226,677	225,222
	Subtotal	370,759	358,244
	Total	561,621	495,028

35. CLAIM ADJUSTMENT EXPENSES

Claim adjustment expenses for the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

Description	2015	2014
Salaries and wages	17,793	17,252
Severance benefits	1,750	1,574
Employee benefits	2,339	2,331
Other salaries	140	200
Traveling expenses	1,083	1,151
Communication expenses	2,349	2,581
Water, light and heating expenses	66	83
Taxes and dues	902	891
Supplies	152	116
Meeting costs	41	42
Rent	1,764	1,866
Vehicle maintenance expenses	38	68
Insurance premium	285	341
Commission expenses	36,511	32,199
Computing	3,154	2,922
Depreciation	567	689
Others	3	1
Claim adjustment fee received	(14,456)	(13,268)
Total	54,481	51,039

36. INVESTMENT ADMINISTRATION EXPENSES

Investment administration expenses for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	2015	2014
Salaries and wages	6,750	6,172
Employee benefits	764	552
Communication expenses	440	470
Repairs expenses	1,088	957
Commission expenses	19,151	17,574
Others	13,950	13,921
Total	42,143	39,646

37. OTHER OPERATING EXPENSES

Other expenses for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	2015	2014
Depreciation of investment property	5,256	5,378
Amortization of intangible assets	12,138	2,703
Discount charge	71	70
Others	20,062	4,714
Total	37,527	12,865

38. INCOME TAX EXPENSE

(1) Income tax expense for the years ended December 31, 2015 and 2014, consists of the following (In millions of Korean won):

Description	2015	2014
① Income tax currently payable	17,258	24,082
② Temporary differences	20,195	98,556
③ Items directly charged to equity	(13,496)	(88,135)
④ Additional payments of income taxes	884	(156)
⑤ Income tax expense (①+②+③+④)	24,841	34,347

(2) The relation between accounting income and income tax expense for the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

Description	2015	2014
Income before income tax	131,356	145,649
Income tax expense calculated at the current applicable tax rates	31,443	35,162
Adjustments		
Non-taxable income	(1,036)	(1,285)
Non-deductible expense	693	525
Additional payments of income Taxes	884	(156)
Deferred tax for corporate income refund tax	1,230	—
Settlement for the prior year	(8,618)	157
Tax rate difference	245	(56)
Income tax expense	24,841	34,347
Effective tax rate	18.91%	23.58%

(3) Details of change in temporary differences and the deferred income tax assets (liabilities) as of the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

(2015)

Description	Beginning	Increase (decrease)	Ending
Fixed assets	127	—	127
Compensation receivables	(3,878)	(170)	(4,048)
Other assets	4,270	169	4,439
Other investment expenses	1,796	(943)	853
Short-term trading financial assets	(5,245)	4,600	(645)
AFS financial assets	(438,186)	(67,165)	(505,351)
Accrued income	(146,291)	(3,284)	(149,575)
Other payables	13,936	3,859	17,795
Accrued expenses	35,665	(10,548)	25,117
Accrued dividend	(12,900)	(388)	(13,288)
Guaranteed variable	(1,495)	(228)	(1,723)
Provisions for restoration costs	5,515	1,897	7,412
Plan assets	(1,378)	18	(1,360)
Prepaid expenses	(1,233)	399	(834)
Unearned Income	1,113	(121)	992
Dividend income	3	—	3
Advanced depreciation provision	(342)	—	(342)
Gains (losses) on foreign currency translation	(2,170)	700	(1,470)
Securities	15,109	(1,506)	13,603
Property and equipment	(41,618)	(167)	(41,785)
Deferred subsidiary earnings for loan	(14,528)	4,854	(9,674)
Deferred acquisition cost	20,015	(6,309)	13,706
Interest income	114	—	114
Rental store facilities	(1,880)	(1,187)	(3,067)
Miscellaneous losses	15,096	(330)	14,766
Reserves	67,493	5,337	72,830
Land	(67,185)	(1,260)	(68,445)

Description	Beginning	Increase (decrease)	Ending
Separate account	(12,179)	(5,373)	(17,552)
Derivatives	(20,702)	(4,738)	(25,440)
Provision for sales guarantee	1,811	546	2,357
Present value discount	12,076	(2,587)	9,489
Defined benefit liabilities	2,038	(253)	1,785
Reserve for loss of dividend contract	4,106	2,134	6,240
Membership	(7,686)	1,509	(6,177)
Partnership taxation exemption	(507)	12	(495)
Reserve of suicide, accident and death	2,586	136	2,722
Understatement of intangible assets	—	1,818	1,818
Provision for incomplete sale	—	4,374	4,374
Catastrophe reserve	—	(2,322)	(2,322)
Temporary difference subtotal	(576,534)	(76,517)	(653,051)
Tax rate	23.9%		23.9%
Deferred tax assets (liabilities) due to temporary differences	(137,809)	(18,289)	(156,098)
Deferred tax on unused tax deficit	8,499	(1,906)	6,593
Net deferred tax assets (liabilities)	(129,310)	(20,195)	(149,505)

(2014)

Description	Beginning of year	Increase (decrease)	End of year
Fixed assets	127	—	127
Compensation receivables	(5,319)	1,441	(3,878)
Other assets	2,147	2,123	4,270
Other investment expenses	2,943	(1,147)	1,796
Short-term trading financial assets	7,767	(13,012)	(5,245)
Reserve for allowance for doubtful accounts	(1,405)	1,405	—
AFS financial assets	(104,777)	(333,409)	(438,186)
Accrued income	(141,490)	(4,801)	(146,291)
Other payables	9,395	4,541	13,936
Accrued expenses	29,029	6,636	35,665
Accrued dividends	(6,099)	(6,801)	(12,900)
Guaranteed variable	(715)	(780)	(1,495)
Provisions for restoration costs	4,935	580	5,515
Plan assets	(2,120)	742	(1,378)
Prepaid expenses	(970)	(263)	(1,233)
Unearned income	1,325	(212)	1,113
Dividend income	3	—	3
Advanced depreciation provision	(342)	—	(342)
Gains (losses) on foreign currency translation	(2,284)	114	(2,170)
Securities	25,925	(10,816)	15,109
Property and equipment	(41,697)	79	(41,618)
Deferred subsidiary earnings for loan	(13,271)	(1,257)	(14,528)
Deferred acquisition cost	5,030	14,985	20,015
Interest income	114	—	114
Rental store facilities	(1,230)	(650)	(1,880)

Description	Beginning of year	Increase (decrease)	End of year
Miscellaneous loss	14,551	545	15,096
Reserve	61,969	5,524	67,493
Land	(66,076)	(1,109)	(67,185)
Separate account	8,248	(20,427)	(12,179)
Derivatives	(16,907)	(3,795)	(20,702)
Provision for sales guarantee	224	1,587	1,811
Present value discount	13,128	(1,052)	12,076
Defined benefit liability	2,295	(257)	2,038
Impairment loss for real estate	90	(90)	—
Reserve for loss of dividend contract	2,985	1,121	4,106
Membership	(9,611)	1,925	(7,686)
Partnership taxation exemption	—	(507)	(507)
Reserve of suicide, accident and death	—	2,586	2,586
Temporary difference subtotal	(222,083)	(354,451)	(576,534)
Tax rate	23.9%		23.9%
Deferred tax assets (liabilities) due to temporary differences	(53,073)	(84,736)	(137,809)
Deferred tax on unused tax deficit	22,319	(13,820)	8,499
Net deferred tax assets (liabilities)	(30,754)	(98,556)	(129,310)

(4) Details of deferred income taxes directly reflected to or deducted from equity as of the years ended December 31, 2015 and 2014, are as follows (in millions of Korean won):

Description	2015	2014
Net change in fair value of AFS financial assets	56,328	(78,845)
Net change in fair value of HTM financial assets	(70,501)	—
Net change in fair value of cash flow hedges derivatives	1,208	(3,980)
Net change in property revaluation surplus	(300)	(265)
Other comprehensive income of separate accounts	(173)	(4,988)
Remeasurements of net defined benefit liabilities	(58)	(57)
Total	(13,496)	(88,135)

39. EARNINGS PER SHARE

Details of basic earnings per share for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	2015	2014
Net income of ordinary shares ((held by owner of the parent company)	98,706	96,610
Weighted-average number of shares outstanding (Note 1)	13,583,369 shares	13,583,369 shares
Basic earnings per share (Note 2)	7,267 Won	7,112 Won

(Note 1) There is no change in capital during the current and previous years and weighted average number of common shares outstanding is equal to the number of shares issued.

(Note 2) The Group has no dilutive potential ordinary shares, so the basic earnings per share and diluted earnings per share are the same.

40. NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	2015	2014
Non-operating income		
Gain on disposal of property and equipment	5	40
Miscellaneous income	13,074	8,801
Total	13,079	8,841
Non-operating expenses		
Loss on disposal of property and equipment	32	57
Loss on disposal of investment property	1,849	—
Donations	5,024	4,627
Miscellaneous loss	7,072	8,156
Total	13,977	12,840

41. RELATED PARTY TRANSACTIONS

(1) Details of related parties of the Group for the years ended December 31, 2015 are as follows:

Description	Name of related party	
Ultimate controlling party	Lee Ho Jin	
Controlling stockholder	Lee Won Jun	Daehan Synthetic Fiber Co., Ltd.
	ILJU Academy and Culture Foundation	Lee Dong Jun
	Lee Tae Jun	Korea Book Promotion Co., Ltd.
	Lee Sung Ah	Lee Jung Ah
Investee party	Goryo Savings Bank Co., Ltd.	Yegaram Savings Bank Co., Ltd.
Other(*1)	Taekwang Industrial Co., Ltd.	Donglim Engineering & Construction Co., Ltd.
	ILJU Educational Foundation	Es-teem Co., Ltd.
	Sehwa Art and Culture Foundation	Mervin Co., Ltd.
	ILJU BUILDING	Daishin-Heungkuk 1 PEF
	Seohan Moolsan Co., Ltd.	Heungkuk Asset Management Co., Ltd.
	Segwang Fashion Co., Ltd.	Heungkuk Securities Co., Ltd
	Taekwang Synthetic Fiber (Changshu) Limited	T-broad Dongdaemun Broadcasting Co., Ltd.
	Seohanzhigwan (Changshu) Limited	T-broad Nowon Broadcasting Co., Ltd.
	Taekwang Industrial Co., Ltd. Gaesung	I-Digital Homeshopping Co., Ltd.
	Woori Home Shopping Co., Ltd	KCT Co., Ltd
	Taekwang Tourist Development Co., Ltd.	Champvision Co., Ltd.
	Tsis Co., Ltd.	Cable TV VOD Co., Ltd.
	T-broad Co., Ltd.	Communix Co., Ltd.
	KDMC Co., Ltd.	IMM Private Equity, Inc.
	E-Channel Co., Ltd.	J&T 1 PEF
	Tcast Co., Ltd.	

(*1) The Group is a member of Taekwang Industrial Group. Therefore, all affiliated companies of the Taekwang Industrial Group are subsidiaries/affiliates of the Group and are related parties.

(2) Significant transactions with related parties of the Group for the years ended December 31, 2015 and 2014, are as follows:

(2015)

	Revenue				Expense		
Name of company	Premium revenues	Interest income	Rental income	Other income	Commission expenses	Interest expenses	Other expenses
ILJU Academy and Culture Foundation	5	—	35	—	—	270	—
Daehan Synthetic Fiber Co., Ltd.	692	—	—	4	—	—	—
Korea Book Promotion Co., Ltd.	201	—	128	9	2	—	5,291
Goryo Savings Bank Co., Ltd.	773	—	1	5	—	—	7
Yegaram Savings Bank Co., Ltd.	689	—	1	6	—	—	—
Taekwang Industrial Co., Ltd.	11,749	—	268	41	—	—	262
Sehwa Art and Culture Foundation	52	—	575	—	—	1,080	—
Segwang Fashion Co., Ltd.	316	—	—	—	—	—	—
Woori Home Shopping Co., Ltd	2,916	—	—	—	5,132	—	—
Taekwang Tourist Development Co., Ltd.	249	—	—	1	2	—	334
Tsis Co., Ltd.	7,934	—	815	34	63,747	—	30,136
T-broad Co., Ltd.	4,875	—	2,696	63	—	—	458
KDMC Co., Ltd.	188	—	—	2	—	—	—
E-Channel Co., Ltd.	124	—	416	1	—	—	—
Tcast Co., Ltd.	576	—	1,292	5	—	—	120
Donglim Engineering & Construction Co., Ltd.	114	—	1	2	—	—	15,114
Es-teem Co., Ltd.	31	—	—	1	—	—	1,219
Mervin Co., Ltd.	4	—	9	—	—	—	265
Heungkuk Asset Management Co., Ltd.	562	—	743	4	1,703	—	—
Heungkuk Securities Co., Ltd	214	—	531	2	—	—	3
T-broad Dongdaemun Broadcasting Co., Ltd.	303	—	—	1	—	—	—
T-broad Nowon Broadcasting Co., Ltd.	176	—	—	2	—	—	—
I-Digital Homeshopping Co., Ltd.	154	—	—	1	—	—	—
KCT Co., Ltd	547	—	145	5	1	—	4,432
Others	85	—	—	1	—	—	66
Total	33,529	—	7,656	190	70,587	1,350	57,707

(2014)

Name of Company	Revenue				Expense		
	Premium revenues	Interest income	Rental income	Other income	Commission expenses	Interest expenses	Other expenses
Daehan Synthetic Fiber Co., Ltd.	866	—	—	—	—	—	—
Donglim Engineering & Construction Co., Ltd.	124	—	—	—	—	—	2,589
Sehwa Art and Culture Foundation	3	—	569	—	—	—	—
Goryo Savings Bank Co., Ltd.	449	—	1	2	—	—	9
Mervin Co., Ltd.	7	—	1	—	204	—	208
Segwang Fashion Co., Ltd.	1,619	—	—	—	—	—	—
Es-teem Co., Ltd.	54	—	—	—	760	—	2,702
Yegaram Savings Bank Co., Ltd.	516	—	1	2	—	—	—
E-Channel Co., Ltd.	57	—	180	3	—	—	—
T-broad Co., Ltd.	4,115	—	4,838	4	324	—	106
T-broad Dongdaemun Broadcasting Co., Ltd.	265	—	—	—	—	—	—
Tsis Co., Ltd.	7,921	—	780	1	82,456	—	2,984
Tcast Co., Ltd.	387	—	1,102	5	—	—	—
KCT Co., Ltd.	606	—	128	1	2,247	—	2,171
Taekwang Tourist Development Co., Ltd.	267	—	—	2	61	—	48
Taekwang Industrial Co., Ltd.	15,363	—	266	4	153	—	205
Korea Book Promotion Co., Ltd.	118	—	129	8	529	—	1,080
Heungkuk Asset Management Co., Ltd.	480	—	606	2	1,471	—	—
Heungkuk Securities Co., Ltd	277	—	322	—	—	—	—
Woori Home Shopping Co., Ltd	—	—	—	—	3,406	—	7
Others	335	42	35	—	—	—	—
Total	33,829	42	8,958	34	91,611	—	12,109

In addition to above transactions, the Group has engaged in insurance and policy loans with employees and others under the normal terms and conditions.

(3) Carrying amounts of the receivables and payables as of December 31, 2015 and 2014, are as follows (In millions of Korean won):

December 31, 2015

	Receivables			Payables		
Name of company	Guarantee deposit(*2)	Receivables leasehold deposits	Other receivables	Bonds	Leasehold deposits received	Other payables
Daehan Synthetic Fiber Co., Ltd.	—	—	1	—	—	2
Tsis Co., Ltd.	53,200	—	1	—	20	5,255
Donglim Engineering & Construction Co., Ltd.	—	—	—	—	—	20
Goryo Savings Bank Co., Ltd.	—	—	—	—	1	10
Es-teem Co., Ltd.	—	—	—	—	—	38
Yegaram Savings Bank Co., Ltd.	—	—	1	—	1	9
E-Channel Co., Ltd.	—	—	—	—	225	—
T-broad Co., Ltd.	—	210	5	—	1,624	789
Tcast Co., Ltd.	—	—	2	—	689	8
KCT Co., Ltd.	—	—	1	—	500	223
Taekwang Tourist Development Co., Ltd.	6,284	—	—	—	—	72
Taekwang Industrial Co., Ltd.	—	5	22	—	144	3,474
Korea Book Promotion Co., Ltd.	—	—	1	—	2,000	451
Heungkuk Asset Management Co., Ltd.	—	—	—	—	368	8
Heungkuk Securities Co., Ltd	—	—	—	—	497	—
T-broad Nowon Broadcasting Co., Ltd.	—	—	—	—	—	2
T-broad Dongdaemun Broadcasting Co., Ltd.	—	—	—	—	19	7
ILJU Academy and Culture Foundation	—	—	—	10,000	312	—
Sehwa Art and Culture Foundation	—	—	—	40,000	—	88
Woori Home Shopping Co., Ltd	—	—	—	—	100	—
Mervin Co., Ltd.	—	—	—	—	—	2
Daishin-Heungkuk 1 PEF	—	—	357	—	—	—
Others	—	1,073	—	—	—	—
Total	59,484	1,288	391	50,000	6,500	10,458

December 31, 2014

Name of company	Receivables			Payables		
	Guarantee deposit(*2)	Receivables leasehold deposits	Other receivables	Bonds	Leasehold deposits received	Other payables
Daehan Synthetic Fiber Co., Ltd.	—	—	1	—	—	3
Donglim Engineering & Construction Co., Ltd.	—	—	—	—	—	3
ILJU Academy and Culture Foundation	—	—	—	—	19	—
Sehwa Art and Culture Foundation	—	—	—	—	312	—
Goryo Savings Bank Co., Ltd.	—	—	—	—	1	10
Mervin Co., Ltd.	—	—	—	—	100	4
Es-teem Co., Ltd.	—	—	—	—	—	88
Yegaram Savings Bank Co., Ltd.	—	—	—	—	1	10
Segwang Fashion Co., Ltd.	—	—	—	—	—	1
E-Channel Co., Ltd.	—	—	—	—	90	—
Tsis Co., Ltd.	53,200	—	—	—	120	5,494
T-broad Co., Ltd.	—	210	—	—	3,078	511
Tcast Co., Ltd.	—	—	—	—	690	5
T-broad Dongdaemun Broadcasting Co., Ltd.	—	—	—	—	—	3
T-broad Nowon Broadcasting Co., Ltd.	—	—	—	—	—	2
KCT Co., Ltd.	—	—	—	—	500	177
Taekwang Industrial Co., Ltd.	—	—	15	—	144	3,632
Taekwang Tourist Development Co., Ltd.	5,940	—	450	—	—	72
Korea Book Promotion Co., Ltd.	—	—	1	—	1,991	371
Daishin-Heungkuk 1 PEF	—	—	756	—	—	—
Heungkuk Securities Co., Ltd	—	—	—	—	—	7
Heungkuk Asset Management Co., Ltd.	—	—	—	—	334	—
Woori Home Shopping Co., Ltd	—	—	—	—	—	326
Others	—	1,073	—	—	—	—
Total	59,140	1,283	1,223	—	7,380	10,719

(*2) The face value of the deposit to be repaid at maturity for the membership held by the Group.

(4) Details of related party transaction during the years ended December 31, 2015 and 2014 are as follows (In millions of Korean won):

(2015)

Name of company	Borrowing transactions			
	Beginning	Borrowings	Repayment	Ending
Sehwa Art and Culture Foundation	—	40,000	—	40,000
ILJU Academy and Culture Foundation	—	10,000	—	10,000
Total	—	50,000	—	50,000

(2014)

Name of company	Lending transactions			
	Beginning	Lending	Repayment	Ending
Heungkuk Securities Co., Ltd.	—	415,000	415,000	—
Total	—	415,000	415,000	—

(5) Compensation for the key executives for the years ended December 31, 2015 and 2014 are as follows (In millions of Korean won):

Description	2015	2014
Salaries and bonuses	4,333	5,139
Severance benefits	1,415	1,079
Total	5,748	6,218

42. CONTINGENCIES AND COMMITMENTS

(1) Pending litigations

As at December 31, 2015, the Group is a defendant in 597 legal cases (claim amounts: KRW 19,648 million); and a plaintiff in 419 legal cases (claim amounts: KRW 43,812 million) with respect to insurance claim settlements.

(2) Reinsurance agreements

The Group enters into reinsurance agreements as a purchaser of reinsurance with domestic and overseas reinsurance companies, such as Korean Reinsurance Company, ScorGlobal Life, and Gen Re, for risks taken from policyholders in order to cede risks that exceed the Group's ability. On the other hand, the Group also enters into reinsurance agreements as a provider of reinsurance for some insurance products issued by domestic and overseas reinsurance companies. Accordingly, the Group and the counterparty pay and receive reinsurance premiums, reinsurance claims and reinsurance commissions to each other in relation to reinsurance ceded and reinsurance assumed.

(3) Overdraft agreement

As of the years ended December 31, 2015, the Group entered into overdraft agreements with KEB Hana Bank and Shin Han Bank with a total limit of KRW 70 billion. In connection with this, government and public bonds, and other public bonds with par value of KRW48, 000 million are pledged as collateral.

(4) Payment Guarantee

As of the years ended December 31, 2015, the Seoul Guarantee Insurance Co. has provided a payment guarantee of KRW 6,446 million to the Group in relation to deposit money of litigation and others.

43. CASH FLOW FROM OPERATING ACTIVITIES

(1) Cash generated from operations for the years ended December 31, 2015 and 2014, is as follows (In millions of Korean won):

Description	2015		2014	
1. Adjustments		3,703,405		2,487,525
<Addition of expenses of non-cash transactions>		4,908,236		3,516,529
Interest expenses	33,819		28,127	
Income tax expenses	24,841		34,347	
Provision for insurance contract liabilities	3,948,891		2,689,769	
Severance and retirement benefits	959		3,655	
Amortization of deferred acquisition costs	609,982		607,108	
Losses on valuation of FVTPL	17,503		4,396	
Losses on sales of AFS financial assets	5,417		3,485	
Impairment losses on AFS financial assets	1,193		2,457	
Losses on redemption of HTM financial assets	68		—	
Expenses of allowance for doubtful accounts	6,331		656	
Losses on foreign currency translation	7,376		6,292	
Depreciation	19,046		16,509	
Amortization of intangible assets	12,138		12,453	
Impairment losses on intangible assets	—		83	
Losses on valuation of borrowings	—		1,327	
Losses on valuations of derivatives	163,466		89,697	
Losses on derivatives transactions	26,764		6,867	
Losses on disposition of property and equipment	32		57	
Losses on disposition of investment properties	1,849		—	
Compensation Loss	—		1,441	
Legal expense	—		1,091	
Other expenses	28,561		6,712	
<Deduction of revenues of non-cash transactions>		(1,204,831)		(1,029,004)
Interest income	(839,242)		(774,246)	
Dividend income	(83,366)		(59,750)	
Compensation income	(170)		—	
Gains on valuation of FVTPL	(6,873)		(16,586)	
Gains on sales of AFS financial assets	(61,946)		(56,863)	
Gains on redemption of HTM financial assets	(93)		—	
Reversal of allowance for doubtful accounts	—		(110)	
Gains on foreign currency translation	(171,290)		(86,945)	
Restoration income	—		(70)	
Gains on valuations of derivatives	(13,429)		(10,190)	
Gains on derivatives transactions	(22,157)		(22,153)	
Recovery of impairment losses on intangible assets	—		(94)	
Gains on disposition of investment properties	—		(34)	
Gains on disposition of property and equipment	(5)		(6)	
Other income	(6,260)		(1,957)	
2. Changes in assets and liabilities from operating activities		(1,372,889)		(2,031,092)
Decrease (increase) in deposits	137,243		(98,305)	
Decrease in financial assets at FVTPL	40,969		113,447	
Increase in loans	(1,174,634)		(1,604,154)	

Description	2015	2014
Decrease in notes receivables	—	150
Decrease (increase) in insurance receivables	(58,812)	14,109
Increase in other receivables	(16,754)	(2,995)
Decrease (increase) in accrued revenues	429	(1,369)
Decrease (increase) in prepaid expenses	1,434	(836)
Increase in prepaid VAT	—	(19)
Increase in advance payments	(177)	(2,947)
Increase in deferred acquisition costs	(598,589)	(592,878)
Increase in reinsurance assets	—	(12,316)
Increase in separate account assets	(240,666)	(358,141)
Decrease in financial liabilities at FVTPL	—	(6,094)
Payments of retirement allowance	(974)	(837)
Decrease in plan assets	159	38
Increase in unpaid claims	68,916	7,241
Increase (decrease) in other payables	(12,661)	9,522
Increase (decrease) in accrued expenses	(6,431)	8,142
Decrease in deposits received	(76)	(197)
Increase in advance from customers	2,051	620
Increase (decrease) in unearned income	(1,601)	7,156
Increase in unearned insurance premium	165,222	11,225
Increase in derivative liabilities	—	289
Decrease in leasehold Deposits Received	(6,292)	(1,048)
Increase(Decrease) in provisions for guarantee of debts	(137)	1,587
Decrease in provisions for restoration costs	(79)	(49)
Increase in separate account liabilities	328,571	477,567

(2) Investing and financing activities of non-cash transactions for the years ended December 31, 2015 and 2014, are as follows (In millions of Korean won):

Description	2015	2014
Transfer between property and equipment, and investment properties	14,209	15,240
Transfer from AFS financial assets to HTM financial assets	3,289,844	—
Transfer from advance payments to intangible assets	555	2,212

44. RISK MANAGEMENT

I. Life insurance

(1) Overview

1) Overall system, including risk management policies, strategies and procedures

A) Risk management policies

The risk management policies of the life insurance segment aim to reinforce its value by preventing and systematically managing potential risks that may arise in the course of business. As part of this effort, the life insurance segment established and is implementing regulations and management structure following establishing risk management principles in relation to the life insurance business.

B) Risk management strategies

Risk types are classified into insurance risk, interest rate risk, credit risk, market risk, liquidity risk, operational risk and others, and the life insurance segment performs risk management through procedures that are recognition, measurement, management and feedback of risks. The life insurance segment measures risks by using empirical statistic data or model analysis for each risk category; sets an acceptable limit and operational guidelines; monitors continuously; and establishes countermeasures to mitigate those risks.

C) Risk management procedures

① Risk recognition

Insurance risk, interest rate risk, credit risk, market risk, operational risk and liquidity risk that may arise in the course of insurance business are recognized as significant risks.

② Risk measurement/assessment

Risks are measured and managed based on Risk-Based Capital (RBC). Liquidity risk is regularly measured and monitored to determine whether the liquidity risk ratio, a managing criterion, is appropriate.

③ Risk Controls

The life insurance segment sets an appropriate level of limit on risks and monitor them on a regular basis. In addition, appropriate actions such as reporting to the Risk Management Committee and taking countermeasures are taken when anomalies are detected.

2) Internal capital adequacy assessment and management procedures

The Group complies with the risk-based capital ("RBC") ratio required by the Financial Supervisory Service. Financial Supervisory Service requires RBC ratio of over 100%. When RBC ratio is below 100%, worsening of deficiency is prevented through following prompt corrective actions:

Risk-based Capital	Prompt corrective actions
Recommendation of improvement of business management (50%~ Under 100%)	Recommend increase of equity capital, restrict any new business, and others
Request for improvement of business management (0%~Under 50%)	Request change of management members, liquidation of subsidiaries, and others
Order for improvement of business management (Less than 0%)	Suspension of management, Suspension of insurance business, and others

3) Structure and functions of risk management organization

A) Risk Management Committee

Risk management committee is a top decision making organization for risk management and determines principles on risk management and risk limits in conformity with it management strategy.

B) Practice segment for Risk Management

The life insurance segment runs the Risk Management team that is an exclusive team for risk management to assist the Risk Management committee and implement risk management functions. The Risk Management team performs the following functions:

① Matters concerning the operation of the Risk Management Committee,

② Planning and managing risk management strategies, ③ Managing risk management regulations and guidelines,

④ Developing and operating risk management measurement system,

⑤ Setting and managing indicators and targets for risk management, and limits, and

⑥ Establishing risk capital management system and evaluating capital adequacy.

4) Activities to establish a risk management system

A) Risk Management Regulatory Framework

Regulations related to risk management of the life insurance segment consist of risk management regulations, regulations for the risk management committee, and related detailed rules. The life insurance segment stipulates and manages overall matters concerning risk management tasks such as risk management organization, risk management strategy and system, segmental risk measurement, reporting and control limit management crisis analysis.

B) Limit management

Considerations when setting an acceptable limit, plans by a responsible department, discussion with related team(s), deliberation by the Risk Management Committee, and others are stipulated in clauses of the risk management regulations related to risk limit management. The non-life insurance segment determines an acceptable level of risk limit, reflecting annual business plans as well as asset management plans and taking diversification effects among risks into consideration; and manages capital adequacy by analyzing and reporting on a regular basis.

C) Establishment of risk management system and operational improvement

The life insurance segment have been establishing or is operating a risk assessment and management system for each market risk and interest rate risk, and the details are as follows:

Description	Methodology of establishment	Methodologies of measurement
Market risk	Delta-Normal Method	Market VaR, Stress Test, sensitivity analysis, and etc.
Interest rate risk	Monte Carlo Simulation	VaR, EC, Stress Test, sensitivity analysis, and etc.
Description	Methodology of establishment	Methodologies of measurement

(2) Insurance risk management

1) Overview

Insurance risk refers to the risk related to underwrite of insurance contracts and claim payments where there is a possibility of loss if the actual payment is bigger than expected. Insurance risk can be divided into insurance price risk and reserve risk.

A) Insurance price risk refers to the possibility of loss due to difference in actual risk rate (loss ratio) and assumed rate applied in insurance premium calculation.

B) Reserve risk is the risk of loss due to difference between reserve for outstanding claims and actual claims paid in the future. However, the reserve risk is not taken into consideration because the life insurance is mainly based on fixed benefits and thus it has small volatility in terms of benefit payments and the period till the payment made is relatively short.

2) Status of insurance risk exposure

The exposure of insurance price risk represents the amount of premium for the insured events such as death or illness to cover the benefit payments for a year.

(In millions of Korean won)	December 31, 2015		December 31, 2014	
	Exposure(*)	Insurance price risk	Exposure(*)	Insurance price risk
Death	100,842	17,091	94,687	16,065
Disability	5,750	5,580	6,005	5,614
Hospitalization	36,172	13,452	36,581	14,187
Surgery and diagnosis	123,743	75,116	123,481	80,878
Medical expense	11,456	1,785	8,322	822
Others	36,819	16,226	37,844	15,019
Total	314,782	129,250	306,920	132,585
Before application of the reinsurance ratio		129,250		132,585
Retention rate (%)		89.1%		94.0%

(*) Increase in amount of risk due to increase in risk premium for existing contracts: decrease by 3.3 billion won

3) Measurement method

Insurance risk of the life insurance segment is measured by the Risk-Based Capital (RBC). Sum of the amounts that risk premium for existing contracts for each insurance guarantee category multiplied by risk coefficient is adjusted based on the possession rate in order to calculate the insurance risk. In addition, the life insurance segment established an insurance risk internal model system based on the Moses tool in preparation for introducing RBC internal model system.

4) Management procedures

The life insurance segment manages risk ratio gap profit and loss by product, collateral, and sales channel through a periodic monitoring. In addition, when new products are released, risk factors of the risk ratio gap are recognized in advance through inspecting the adequacy of the ratio of risk, profitability per collateral of insurance policy - policy rider, and underwriting.

5) Reinsurance policy

The life insurance segment utilizes reinsurance to diversify the insurance risk. The Company’s concentration level to top five reinsurers for life insurance as of December 31, 2015 is as follows:

(In millions of Korean won)	AA- and over(*)	A+ ~ A-(*)	BBB+ and below(*)
Reinsurance premiums ceded	37,951	—	—
Percentage (%)(**)	98.8%	0.0%	0.0%

(*) The credit ratings of the foreign credit-rating agencies are converted to the credit ratings of the domestic credit-rating agencies in conformity to attached table 22 of the Detailed Enforcement Regulation on Insurance Supervision.

(**) The proportion of premiums for reinsurance ceded to total reinsurance premiums

The Company's premium for reinsurance ceded per reinsurer category as of December 31, 2015 is as follows:

(In millions of Korean won)	AA- and over	A+ ~ A-	BBB+ and below	Total
Reinsurance premiums ceded	38,413	—	—	38,413
Percentage (%)	100.0%	0.0%	0.0%	100.0%

(3) Interest rate risk management

1) Overview

Interest rate risk refers to Asset Liability Management Risk (ALM Risk) arising from the inconsistency in value changes of asset and liabilities when market interest rate fluctuates.

In general, interest rate risk is the risk that the value of a company decreases because the value of its liability is higher than the value increase of its asset when the interest rate declines. It occurs due to factors affecting cash flows such as size, maturity, and interest payment frequency of the assets and liabilities exposed to the interest rate fluctuation.

2) Status of interest rate risk exposure

The amount of risk and exposure of interest earning assets and interest bearing liabilities of the life insurance segment under the risk-based capital (RBC) system as of December 31, 2015 and 2014 are as follows:

	2015		2014	
(In millions of Korean won)	Exposure	Amounts sensitive to interest rate	Exposure	Amounts sensitive to interest rate
A. Interest earning assets	17,644,741	100,330,692	14,376,077	58,378,650
I. Deposits	1,086,262	6,310,668	1,066,453	44,382
II. Securities at FVTPL	476,775	843,837	478,094	1,321,936
III. AFS financial assets	7,067,992	35,596,807	7,739,010	38,463,785
IV. HTM financial assets	3,331,258	35,767,543	—	—
V. Loans receivable	5,682,454	21,811,837	5,092,520	18,548,547
B. Interest bearing liabilities	16,691,822	91,088,463	14,013,219	69,850,520
I. Fixed rate contracts	4,669,775	48,644,069	4,460,812	46,155,235
II. Floating rate contracts	12,022,047	42,444,394	9,552,407	23,695,285
Amount of interest rate risk		377,490		299,320
- Coefficient of interest rate variation (%)		1.85		1.85
Amount of negative spread risk		85,903		42,705

(*) Changes in 5-year treasury rate for the last one year: 2.28% -> 1.81%

(**) Changes in amount of interest rate risk due to changes in the coefficient applied to the amount of minimum Interest rate risk and increase in premium reserve: 78.2 billion won increased

(***) Changes in the negative spread due to decrease in market interest rate: 43.2 billion won increased

3) Status of floating-rate type liabilities for minimum guaranteed interest rate

Exposure of floating-rate type liabilities for each minimum guaranteed interest rate range by RBC standard as of December 31, 2015, is as follows:

(in millions of Korean won)	0% or less(*)	More than 0% ~ 2%	More than 2% ~ 3%	More than 3% ~ 4%	More than 4%	Total
Floating rate-type liabilities(**)	126,202	883,229	5,618,735	4,969,675	22,534	11,620,375

(*) Reserve without a minimum guarantee option is shown as "0% or less."
(**) Excluding fixed-rate type of rider contracts

4) Measurement method

The life insurance segment calculates amount of risk related to changes in values of assets and liabilities due to interest rate changes based on the RBC. The amount of interest rate risk is calculated as follows:

Amount of interest rate risk = max (|Amounts of assets sensitive to interest rate - Amounts of liabilities sensitive to interest rate| * Coefficient of interest rate variation, Minimum amount of interest rate risk) + Amount of negative spread risk

Amounts of assets sensitive to interest rate and amounts of liabilities sensitive to interest rate are corresponding exposure multiplied by interest rate sensitivity.

the interest rate sensitivity of Interest bearing liabilities is calculated by using different coefficients according to types of insurance products (saving/indemnity/annuity) and types of interest payments (fixed-rate type/floating-rate type) whereas the interest rate sensitivity of Interest earning assets is calculated by using the duration provided by credit rating agencies, asset management companies, or trust.

5) Management procedures

The life insurance segment manages interest rate risk by reducing the difference between operating asset duality and insurance liability duality through a procedure that reflecting profitability of asset management and market rates in an assumed interest rate calculation and a quoted interest rate calculation.

The quoted interest rate is determined by the Product Development Committee every month in accordance with the guidelines established by the Risk Management Committee. In addition, the life insurance segment conducts ongoing management on the interest rate risk such as increasing asset durations through long-term investments and reducing liability durations through changes in reserve structure (increasing sales of floating-rate type products) in order to reduce asset - liability duration gap.

(4) Credit Management Risk

1) Overview

Credit risk represents the risk of loss on asset portfolio as a result of a credit event, such as debt restructuring, default, or bankruptcy. Such credit risk can be categorized into expected and unexpected losses. Incurred loss is expected amount of loss based on default and recovery rate and it is managed through allowance for bad debts. Unexpected loss is the volatility of loss from credit risk, and it is managed through capital.

2) Status of credit risk

The credit risks are measured for assets such as deposits, loans, securities, and real estate, and Over-the-counter derivatives transactions. The amounts of credit risk of assets subject to the credit risk under the RBC requirements as of December 31, 2015 and 2014 are as follows:

(in millions of Korean won)		December 31, 2015 Exposure	December 31, 2015 Amount of credit risk (*)	December 31, 2014 Exposure	December 31, 2014 Amount of credit risk (*)
I. Assets	Cash and deposits	1,086,267	17,805	1,066,457	13,205
	Financial assets at fair value through profit or loss	486,542	15,108	486,990	12,336
	AFS financial assets	7,238,254	159,776	7,928,066	145,886
	HTM financial assets	3,331,258	23,272	—	—
	Investment securities in affiliates subsidiaries	320,574	38,469	297,542	35,705
	Loans receivables(**)	5,695,777	110,144	5,107,068	84,944
	Real estate	753,502	50,603	748,818	44,929
	Non-operating assets	308,210	8,194	258,877	5,690
	Subtotal	19,220,384	423,371	15,893,818	342,695
II. Over-the-counter derivatives transactions		447,524	3,249	342,247	2,899
III. Deductions		—	23	—	25
Total (I+II+III)		19,667,908	426,597	16,236,065	345,569

(*) Increase in the credit risk by 63.8 billion won due to amendments to the RBC requirements (raising credit risk coefficient) in December 2015, and increase in the credit risk due to net asset growth.

(**) Reserve for credit loss for non-performing assets has been deducted from the amount of credit risk from December 2014 due to amendments to related legislation.

3) Measurement method

A standard model (RBC) is used to measure the credit risk in accordance with the Regulations on Supervision of Insurance Business. The standard model measures the risk by applying credit risk coefficients based on credit status such as type of asset, existence of collateral/guarantee, and credit rating of the borrower.

4) Management procedures

A) Credit limits are managed by industry/group. Credit rating of industry, market capitalization, and bond issuance size are taken into consideration when setting the industry-specific limits whereas total assets and average credit rating are taken into consideration when setting the group-specific limits for companies subject to mutual investment restriction. These credit limits are monitored on a regular basis, and investments are made by taking runout rates of the limits into account.

B) After the credit-granting transactions, credit review is performed to monitor companies that may have liquidity issues by reviewing the borrower's credit rating and financial structure changes on a regular basis.

C) The life insurance segment defines asset quality classification criteria upon consideration of the borrower's credit rating, capability to repay, and delinquency period, and reflect appropriate expected loss based on the quality classification in allowances. The Company is prepared for the credit risk that could result in high risk due to the bankruptcy of borrower through setting assets that are convinced to make loss or expected to be unrecoverable as bad debts expenses.

5) Status of credit rating exposure

A) Bonds (in millions of Korean won)

Description	Risk free	AAA	AA+~AA-	A+~BBB-	Below BBB-	Non-rating	Others (*)	Total
Government and public bonds	1,144,417	—	—	—	—	—	—	1,144,417
Special bonds	1,101,087	769,053	30,122	—	—	—	83,422	1,983,684
Financial bonds	—	100,407	771,541	—	—	—	155,954	1,027,902
Corporate bonds	228,006	642,942	1,202,410	64,729	—	—	511,537	2,649,624
Overseas securities	215,905	651,115	345,367	—	—	380	117,974	1,330,741
Total	2,689,415	2,163,517	2,349,440	64,729	—	380	868,887	8,136,368

(*) Others are contingent convertible bonds

B) Loans receivable (in millions of Korean won)

Description	Risk free	AAA	AA+~AA-	A+~BBB-	Below BBB-	Non-rating	Others (*)	Total
Call loans, unsecured loans, CP, loans secured by third party guarantee	855,478	90,930	145,904	—	—	529,096	232,203	1,853,611
Loans secured by securities	—	—	—	—	—	—	35,000	35,000
Loans secured by real estate	—	53,797	—	—	—	4,442	1,494,072	1,552,311
Policy loans	—	—	—	—	—	—	1,157,792	1,157,792
Other loans	416,504	84,380	372,000	144,177	—	80,000	—	1,097,061
Total	1,271,982	229,107	517,904	144,177	—	613,538	2,919,067	5,695,775

C) Reinsurance assets (In millions of Korean won)

Description		AA- and over	A+~A-	Below BBB-	Total
	Accounts receivable reinsurance	9,119	—	—	9,119
Domestic	Unearned premium reserve for reinsurance ceded	2,437	—	—	2,437
	Reserve for outstanding claims for reinsurance ceded	1,931	—	—	1,931
	Accounts receivable reinsurance	15,913	—	—	15,913
Overseas	Unearned premium reserve for reinsurance ceded	1,481	—	—	1,481
	Reserve for outstanding claims for reinsurance ceded	5,033	—	—	5,033

D) Derivatives (In millions of Korean won)

Description	Risk free	AAA	AA+~AA-	A+~BBB-	Below BBB-	Non-rating	Total
Interest rate	103	288	39	—	—	—	430
Foreign exchange	50,066	32,149	10,041	—	—	—	92,256
Securities	—	—	4,800	420	—	4,929	10,149
Credit	283,278	—	31,410	30,000	—	—	344,688
Others	—	—	—	—	—	—	—
Total	333,447	32,437	46,290	30,420	—	4,929	447,523

6) Concentrations by industry

Status of concentrations per industry for bonds and loans receivable held by the life insurance segment as of December 31, 2015, is as follows:

A) Bonds (In millions of Korean won)

Description	Finance/ insurance	Electronic / gas/water supply	Government / public	Manufacturing	Real estate/ lease	Others	Total
Domestic bonds	1,301,594	669,705	2,883,960	990,795	216,959	742,613	6,805,626

B) Loans receivable (In millions of Korean won)

Description	Real estate/ lease	Finance/ insurance	Wholesale and retail sales/ transportation/ lodging/ food & beverage	Electronic/ gas/steam/ water supply	Public/ individual service	Others	Total
Policy loans	—	—	—	—	—	1,157,792	1,157,792
Others	854,758	848,407	437,219	310,632	75,621	2,015,725	4,542,362
Total	854,758	848,407	437,219	310,632	75,621	3,173,517	5,700,154

7) Concentrations by country

Status of concentrations per country for cash and cash equivalents, securities, and loans receivable held by the life insurance segment as of December 31, 2015 is as follows:

(in millions of Korean won)	United States of America	Europe	China	Japan	Republic of Korea	Others	Total
Cash and cash equivalents	100,000	220,320	—	—	695,947	70,000	1,086,267
Securities	441,371	117,631	358,229	28,422	10,790,847	164,554	11,901,054
Loans receivables	49,998	—	—	—	5,650,156	—	5,700,154
Total	591,369	337,951	358,229	28,422	17,136,950	234,554	18,687,475

(5) Market risk management

1) Overview

Market risk according to the RBC consists of general market risk and guarantee risk of variable life insurance.
A) General market risk refers to a risk of loss due to changes in market indexes such as stock prices, interest rates, and exchange rates. Key assets subject to market risk by risk element are as follows:

Risk Factor	Assets	Amount of market risk
Stock price	Stocks	Decrease in the present value of holding stocks due to decrease in the stock prices
Interest rate	Bonds	Decrease in the value of holding bonds due to increase in interest rates
Exchange rate	Foreign currency assets	Decrease in the value of holding foreign currency assets translated in KRW due to decrease in exchange rates

B) Amount of guarantee risk of variable life insurance refers to amount difference between price of underlying assets and guaranteed benefits, if the price of the underlying assets falls below the minimum guaranteed benefits.

2) Market risk exposure

The status of exposure by object subject to market risk as of December 31, 2015 and 2014, is as follows:

Description		2015		2014	
		Exposure	Amount of market risk	Exposure	Amount of market risk
I. General market risk	Position in stock	21,192	3,187	106,880	2,813
	Position in interest rate	591,418	5,084	712,048	4,918
	Position in foreign exchange	165,896	13,272	84,634	6,771
	Sub total	778,506	21,543	903,562	14,502
II. Guarantee risk of variable insurance	Variable whole life insurance	39,269	—	36,231	—
	Variable annuity life insurance	885,524	45,811	916,299	54,066
	Variable universal indemnity life insurance	140,139	—	120,053	—
	Variable universal saving life insurance	345,247	28	365,503	—
	Sub total	1,410,179	45,839	1,438,086	54,066
Total (I+II)		2,188,685	67,382	2,341,648	68,568

(*) Cause: Increase in exposure due to increase in foreign currency deposits and privately placed bonds in foreign currency.

3) Status of guarantee risk of variable life insurance

The amounts of guarantee risk of variable insurance of the Company as of December 31, 2015 are as follows:

(in millions of Korean won)	Premium income	Policyholders' reserve	Reserve for guaranteed benefit	Amount of minimum guaranteed risk
Variable whole life insurance	5,344	39,269	9,413	—
Variable annuity life insurance	82,139	885,524	10,163	45,811
Variable universal indemnity life insurance	50,015	140,139	45,570	—
Variable universal saving life insurance	76,301	345,247	16	28
Total	213,799	1,410,179	65,162	45,839

4) Measurement method

Both standard measurement method (RBC) and internal model are used to measure the market risk.

A) The standard method measures an amount of general market risk and an amount of guarantee risk of variable life insurance in accordance with Risk-based Capital (RBC). The amount of general market risk is measured by multiplying each stock/interest rate/foreign exchange rate risk by corresponding market risk coefficient while the amount of guarantee risk of variable life insurance is measured based on a computation standard reflecting characteristics of each guarantee option.

B) For assets subject to mark to market such as short-term trading securities, derivatives, and foreign currency assets, 10-Day value at risk (VaR) at the 99% confidence level and the sensitivity of stocks/bond to market value (beta and duration)are measured using the internal model.

5) Management procedures

A) The life insurance segment sets a limit based on 10-Day VaR and monitors compliance daily to manage the market risk. In addition, when the risk is expected to exceed the limit, the life insurance segment establishes a management plan and counteract the risk exceeding the limit in advance.

B) In addition, sensitivity indexes such as beta and duration are used to analyze a portfolio risk. Amounts of loss are regularly measured under stress conditions according to historical scenario and hypothetical scenario.

6) Sensitivity analysis on risk factors

The life insurance segment operates daily, weekly, monthly and quarterly sensitivity analysis for 50 scenarios such as historical scenarios, and user-designated scenarios. The results of sensitivity analysis which was performed based on exchange rate, interest rate, and stock prices to analyze the effect of the scenario test are as follows:

(in hundred millions of Korean won)	Variable factors	Effect on profit (loss)	Effect on equity
Exchange rate	₩100 increase against won-dollar exchange rate	141	—
Interest rate	100 bp increase	(41)	—
Stock price	10% decrease	(1)	—

(6) Liquidity risk management

1) Overview

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations due to a temporary fund shortage caused by inconsistency of financing and operating period, or unexpected outflows of funds. It also refers to the risk of loss caused by financing with high interest, sales of holding stocks in an urgent manner, and others to resolve the fund shortage.

2) Status of liquidity gap

Liquidity status of assets and liabilities of the life insurance segment as of December 31, 2015 is as follows:

(in millions of Korean won)		Under 3 months	3 months~ Under 6 months	6 months ~ Under 1 year	1 year and over	Total
Assets	Cash and cash equivalents and deposits	416,430	—	554	669,282	1,086,266
	Securities	645,666	194,478	475,127	10,585,783	11,901,054
	Loans receivables	127,248	18,901	50,283	5,490,196	5,686,628
	Separate accounts	—	—	—	2,469,534	2,469,534
	Others	35,913	—	1,254	1,751,858	1,789,025
	Total assets	1,225,257	213,379	527,218	20,966,653	22,932,507
Liabilities		66,496	51,498	120,729	16,751,987	16,990,710
Liquidity gap (assets - liabilities)		1,158,761	161,881	406,489	4,214,666	5,941,797

3) Measurement and management procedures

A) The life insurance segment manages the liquidity risk through a liquidity ratio management.

The liquidity ratio is an indicator to assess adequacy of current assets held, which is the ratio of the current assets that matures in less than 3 months to an average claim paid per quarter for the last 1 year. The life insurance segment maintains the liquidity ratio at a stable level.

B) In addition, the life insurance segment classifies assets by ability to securitize assets; and manages short-term funds including deposits, and liquidity balances including short-term / highly marketable securities daily in order to prepare for an urgent situation of claim payments.

(7) Operational risk management

1) Overview

Operational risk refers to a risk of loss due to inappropriate internal processes, manpower and system, or external events.

2) Recognition and management procedures

Operational risk is a comprehensive risk of loss arising from general business activities. The life insurance segment focuses on preventing loss due to incomplete sales, which is the most common type of operational risk incurred in life insurance companies. The life insurance segment also strives to prevent incomplete sales through regular monitoring of incomplete sales by channel (quality assurance, greeting calls, and breach of duty of disclosure), lapse and surrender rates, and complaint monitoring.

In addition, the life insurance segment controls and manages operational risk according to characteristics of each type of the operational risk.

A) New products or new business are discussed in related team(s) for internal control risk management. In addition, the Accounting team established an internal accounting system to prevent inappropriate accounting.

B) The Internal Control team have to agree with conclusion of contracts for process risk management. The Accounting and other related teams inspect bank balance frequently in order to prevent mistakes/errors in settlements, payments, and others. The Internal Auditing team performs audits on a surprise/regular basis to prevent risk of internal and external frauds.

C) The Compliance team performs internal control management via department compliance officer system and reviews entity-wide internal control management through semi-annual internal control monitoring. The Risk Management department also reviews entity-wide internal control management through semi-annual internal control monitoring.

II. Non-life Insurance

II-1. Overview

(1) Overall system, including risk management policies, strategies and procedures

1) Risk management policies

The non-life insurance segment comprehensively and continuously manages all risks that may arise from business activities such as insurance risk, interest rate risk, credit risk, market risk, and non-financial risk, so that the non-life insurance segment has appropriate level of risks and makes stable profits. In addition, a portfolio policies that manage risks in a comprehensive manner from the point of assets and liabilities are established and operated to ensure long-term development and growth.

2) Risk management strategies

The non-life insurance segment set an integrated risk limit, limits for each department, and limit on credit granting in order to maintain total risk at an appropriate level relative to available capital. Assets - products portfolios are monitored and managed to improve profitability compared to risks via elimination and hedging of excessive risk, and maintaining appropriate risk level.

3) Risk management procedures

① Establishment of basic rules for risk management

The non-life insurance segment implements and operates key risk management policies such as permissible limit for each risk, ALM investment strategies, and underwriting strategies once decisions are made by the Risk Management Committee under the Board of Directors.

② Implementation of risk management by sector

Insurance risk, interest rate risk, credit risk, market risk, and operational risk that may arise in the course of insurance business are recognized as significant risks. The non-life insurance segment measures and manage these risks based on the RBC requirements. Adequacy of liquidity risk is assessed and monitored regularly based on management criteria that are cash flow gap ratio and liquidity ratio. In addition, the non-life insurance segment established the ALM system and manages assets and liabilities in a comprehensive manner.

The risk bearing department assumes a primary responsibility for managing risks in relation to its own work, and manages the possible risks that may arise from the business activities by keeping the Risk Management Team in check and cooperating with.

③ Risk monitoring - reporting

Risks of the non-life insurance business are maintained at an appropriate level, and monitored on a daily, monthly, or quarterly basis by taking various risk factors into consideration that may adversely affect the Company. When anomalies are detected, appropriate actions are taken following a report to the management.

(2) Internal capital adequacy assessment and management procedures

The non-life insurance segment calculates a Risk-based Capital (RBC) ratio to assess internal capital adequacy. Risks are classified into insurance risk, interest rate risk, credit risk, market risk, and operational risk to calculate required capital in RBC, and the ALM system is used to measure amount of internal risk for non-life insurance business. The results, causes, and countermeasures are then reported to the management.

(3) Structure and functions of Board of Directors (Risk Management Committee) and Risk Management Organization

1) Risk Management Committee

Risk management committee that is a top decision making organization for risk management delegated its authority from the BOD makes significant decisions related to risk management such as basic rules on risk management, key management strategies based on risk, and risk limits in conformity with its business strategies.

The risk management committee is composed of 3 members, a Chief Executive Officer (chairperson) and two outside directors (committee members), and resolves matters that the BOD delegates and other important matters related to risk management. In addition, there are an ALM Committee and an Underwriting Committee to support the Risk Management Committee.

2) ALM Committee

The ALM Committee manages risk of corporate value decline due to changes in key economic indicators such as interest rates through Asset & Liability Management (ALM). The ALM Committee also runs an Interest Rate Calculation Committee, a sub-committee, for efficient interest rate calculation at the end of each month.

3) Underwriting Committee

The Underwriting Committee manages insurance risk related to insurance price and reserves. The Underwriting Committee also runs sub-committees, a Long-term Profit and Loss Management committee and an Automobile Profit and Loss Management committee, for efficient risk management per insurance category.

4) Risk Management Team

The non-life insurance segment runs an independent Risk Management team that is responsible for overall risk management and assists the Risk Management Committee, the ALM Committee, and the Underwriting Committee. The Risk Management team performs the following roles:

- Matters concerning the operation of the Risk Management Committee,
- Comprehensive analysis of risk management and establishment of response strategies,
- Performing risk measurement, risk assessment and mediation functions,
- Setting and managing indicators and targets for risk management, and limits, and
- Other matters required for risk management

(4)Activities to establish a risk management system

1) Risk management Practice Organization

Regulations related to risk management of the non-life insurance segment consist of risk management regulations and 8 related detailed rules. The non-life insurance segment stipulates and manages overall matters concerning risk management tasks such as risk type, basic rules of risk management, composition and roles of the Risk Management Committee, and roles of the Risk Management team.

2) Limit management

Considerations when setting an acceptable limit, plans by a responsible department, discussion with related team(s), deliberation by the Risk Management Committee, and others are stipulated in clauses of the risk management regulations related to risk limit management. The non-life insurance segment determines an acceptable level of risk limit, reflecting annual business plans as well as asset management plans and taking diversification effects among risks into consideration; and manages capital adequacy by analyzing and reporting on a regular basis.

3) Establishment of risk management system and operational improvement

The non-life insurance segment measures and manages amount of insurance price risk and reserve risk using an insurance risk assessment system on a monthly basis, and computes interest rate response GAP, status of NII per scenario, EaR, Duration Gap, MVS, and others using an ALM system.

II-2. Insurance risk management

(1) Overview

Insurance risk refers to the risk related to underwrite of insurance contracts and claim payments where there is a possibility of loss if the actual payment is bigger than expected. Insurance risk can be divided into insurance price risk and policy reserve risk. Insurance price risk is the possibility of loss if the amount of insurance claim exceeds the amount of risk premiums received from policy holders. Policy reserve risk is the possibility of loss if the amount of actual insurance claim in the future exceeds claims reserve.

(2) Insurance risk measurement and management procedures

In order to properly control insurance risk calculated using RBC standard model, the non-life insurance segment computes volatility of insurance price risk/policy reserve risk/loss ratio per category of insurance assuming that the contracts are held for a year. In addition, the Risk Management Committee determines RBC-based insurance risk limits that reflect business plans at the beginning of each year, and monitors compliance with the limits. Department responsible for underwriting of general/long-term/automobile insurance and reinsurance policies establishes and implement underwriting guidelines as well as reinsurance strategies to ensure that the insurance risk is managed at an appropriate level. The department also manages the insurance risk by works such as educating the guidelines.

(3) Insurance Risk Exposure

1) Insurance price risk exposure

(2015)

(In millions of Korean won)

	Insurance price risk exposure (*)			
Description	Original insurance (A)	Reinsurance assumed (B)	Reinsurance ceded (C)	Total (A+B-C)
General	139,744	3,315	88,414	54,645
Vehicle	274,964	—	76,495	198,469
Long-term - individual annuity insurance	761,532	—	377,644	383,888
Total	1,176,240	3,315	542,553	637,002

(2014)

(In millions of Korean won)

Description	Insurance price risk exposure(*) Direct(A)	Assumed(B)	Ceding(C)	Total(A+B-C)
General	138,378	2,729	95,733	45,374
Vehicle	251,469	—	70,321	181,148
Long-term - individual annuity insurance	665,763	—	333,652	332,111
Total	1,055,610	2,729	499,706	558,633

(*) Retention premiums for the last one year are used for the general insurance and automobile insurance, and risk premiums for existing contracts for the last one year are used for the long-term - individual annuity insurance.

2) Reserve risk exposure

(2015)

(In millions of Korean won)

Description	Reserve risk exposure Original insurance (A)	Reinsurance assumed (B)	Reinsurance ceded (C)	Total (A+B-C)
General	57,631	4,308	36,828	25,111
Automobile	71,658	—	17,477	54,181
Total	129,289	4,308	54,305	79,292

(2014)

(In millions of Korean won)

Description	Reserve risk exposure Original insurance (A)	Reinsurance assumed (B)	Reinsurance ceded (C)	Total (A+B-C)
General	73,895	4,825	52,206	26,514
Automobile	74,215	—	17,719	56,496
Total	148,110	4,825	69,925	83,010

(4) Insurance price adequacy

A product development team runs a Product Development Committee to help related teams to make a decision following a thorough review of risks that may arise during the new product development and sales. Product developments will be proceeded according to the procedures set by the committee. In addition, the Product Development team performs pre-analysis and evaluation such as propriety analysis of estimated risk rates and estimated expense rates, and cost benefit analysis. Appropriateness of documents and relevant coefficients is confirmed by an appointed actuary. Status of Proportion of premiums to risk premiums (risk loss ratios) as of December 31, 2015 and 2014 is as follows:

	2015	2014
General	85.98%	(20.35%)
Automobile	123.13%	123.52%
Long-term	110.70%	114.34%
Total risk loss ratio	112.42%	108.91%

(5) Policy reserve adequacy

1) Progress of claims paid

① General insurance - fire insurance, marine insurance, accident insurance, engineering insurance, comprehensive insurance, other casualty insurance

(2015)

(In millions of Korean won)

Year of event	Progress by year				
	1 year	2 years	3 years	4 years	5 years
<Estimated claims (accumulated basis)>					
2011. 1. 1 ~ 2011. 12.31	44,265	50,631	50,533	50,232	49,460
2012. 1. 1 ~ 2012. 12.31	54,303	59,819	60,068	59,755	—
2013. 1. 1 ~ 2013. 12.31	82,003	88,177	87,936	—	—
2014. 1. 1 ~ 2014. 12.31	52,747	56,250	—	—	—
2015. 1. 1 ~ 2015. 12.31	44,779	—	—	—	—
Total estimated claims	278,097	254,877	198,537	109,987	49,460
<Accumulated claims>					
2011. 1. 1 ~ 2011. 12.31	25,338	44,550	47,375	47,927	48,101
2012. 1. 1 ~ 2012. 12.31	28,558	46,275	48,888	57,765	—
2013. 1. 1 ~ 2013. 12.31	57,699	75,239	80,746	—	—
2014. 1. 1 ~ 2014. 12.31	30,365	47,672	—	—	—
2015. 1. 1 ~ 2015. 12.31	30,836	—	—	—	—
Total accumulated claims	172,796	213,736	177,009	105,692	48,101
Difference (Total estimated claims - Total accumulated claims)	105,301	41,141	21,528	4,295	1,359

(2014)

(In millions of Korean won)

Year of event	Progress by year				
	1 year	2 years	3 years	4 years	5 years
<Estimated insurance premium (Accumulative basis)>					
2010. 1. 1 ~ 2010. 12.31	35,929	38,787	39,309	39,027	37,818
2011. 1. 1 ~ 2011. 12.31	44,255	50,621	50,522	50,222	—
2012. 1. 1 ~ 2012. 12.31	57,236	62,174	62,579	—	—
2013. 1. 1 ~ 2013. 12.31	96,967	103,331	—	—	—
2014. 1. 1 ~ 2014. 12.31	53,106	—	—	—	—
Total estimated claims	287,493	254,913	152,410	89,249	37,818
<Accumulated claims>					
2010. 1. 1 ~ 2010. 12.31	18,179	33,764	37,209	37,977	36,436
2011. 1. 1 ~ 2011. 12.31	25,338	44,550	47,374	47,927	—
2012. 1. 1 ~ 2012. 12.31	28,550	46,019	48,631	—	—
2013. 1. 1 ~ 2013. 12.31	57,930	84,731	—	—	—
2014. 1. 1 ~ 2014. 12.31	30,573	—	—	—	—
Total accumulated claims	160,570	209,064	133,214	85,904	36,436
Difference (Total estimated claims - Total accumulated claims)	126,923	45,849	19,196	3,345	1,382

(*) RG insurance accidents and cases which annual average number of accidents is less than 400 were excluded from the analysis.

② General Insurance - liability insurance, worker's compensation insurance

(2015)

(In millions of Korean won)

	Progress by year						
Year of event	1 year	2 years	3 years	4 years	5 years	6 years	7 years
<Estimated claims (accumulated basis)>							
2009. 1. 1 ~ 2009. 12.31	2,623	4,163	4,414	4,607	4,702	4,746	4,852
2010. 1. 1 ~ 2010. 12.31	3,558	4,457	5,620	5,552	5,507	5,705	—
2011. 1. 1 ~ 2011. 12.31	4,328	5,964	6,567	6,953	6,662	—	—
2012. 1. 1 ~ 2012. 12.31	7,231	8,457	8,754	8,027	—	—	—
2013. 1. 1 ~ 2013. 12.31	6,359	8,840	8,993	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	9,021	12,586	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	6,935	—	—	—	—	—	—
Total estimated claims	40,055	44,467	34,348	25,139	16,871	10,451	4,852
< Accumulated claims >							
2009. 1. 1 ~ 2009. 12.31	1,646	3,410	4,040	4,292	4,489	4,570	4,771
2010. 1. 1 ~ 2010. 12.31	2,110	3,793	5,214	5,308	5,347	5,363	—
2011. 1. 1 ~ 2011. 12.31	2,722	4,533	5,792	6,348	6,257	—	—
2012. 1. 1 ~ 2012. 12.31	2,502	5,168	6,632	7,136	—	—	—
2013. 1. 1 ~ 2013. 12.31	3,260	6,942	7,528	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	5,465	9,741	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	4,357	—	—	—	—	—	—
Total accumulated claims	22,062	33,587	29,206	23,084	16,093	9,933	4,771
Difference (Total estimated claims - Total accumulated claims)	17,993	10,880	5,142	2,055	778	518	81

(2014)

(In millions of Korean won)

Year of event	Progress by year						
	1 year	2 years	3 years	4 years	5 years	6 years	7 years
<Estimated claims (accumulated basis)>							
2008. 1. 1 ~ 2008. 12.31	2,122	3,375	4,080	4,151	4,321	3,988	3,762
2009. 1. 1 ~ 2009. 12.31	2,623	4,163	4,414	4,607	4,702	4,747	—
2010. 1. 1 ~ 2010. 12.31	3,650	4,556	5,720	5,653	5,608	—	—
2011. 1. 1 ~ 2011. 12.31	4,338	5,974	6,577	6,963	—	—	—
2012. 1. 1 ~ 2012. 12.31	7,259	8,480	8,777	—	—	—	—
2013. 1. 1 ~ 2013. 12.31	6,362	8,847	—	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	9,021	—	—	—	—	—	—
Total estimated claims	35,375	35,395	29,568	21,374	14,631	8,735	3,762
<Accumulated claims>							
2008. 1. 1 ~ 2008. 12.31	1,452	2,645	3,253	3,602	3,677	3,702	3,702
2009. 1. 1 ~ 2009. 12.31	1,646	3,410	4,040	4,292	4,489	4,570	—
2010. 1. 1 ~ 2010. 12.31	2,113	3,873	5,293	5,389	5,428	—	—
2011. 1. 1 ~ 2011. 12.31	2,722	4,533	5,792	6,348	—	—	—
2012. 1. 1 ~ 2012. 12.31	2,510	5,191	6,655	—	—	—	—
2013. 1. 1 ~ 2013. 12.31	3,263	6,948	—	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	5,465	—	—	—	—	—	—
Total accumulated claims	19,171	26,600	25,033	19,631	13,594	8,272	3,702
Difference(Total estimated claims - Total accumulated claims)	16,204	8,795	4,535	1,743	1,037	463	60

③ Automobile insurance

(2015)

(In millions of Korean won)

Year of event	Progress by year						
	1 year	2 years	3 years	4 years	5 years	6 years	7 years
<Estimated claims (accumulated basis)>							
2009. 1. 1 ~ 2009. 12.31	275,783	287,712	292,106	295,157	294,787	294,297	294,580
2010. 1. 1 ~ 2010. 12.31	304,980	319,583	321,882	323,297	323,182	323,147	—
2011. 1. 1 ~ 2011. 12.31	278,540	286,318	289,860	290,335	290,694	—	—
2012. 1. 1 ~ 2012. 12.31	279,075	286,184	289,231	289,552	—	—	—
2013. 1. 1 ~ 2013. 12.31	228,815	232,179	233,021	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	200,987	202,933	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	206,321	—	—	—	—	—	—
Total estimated claims	1,774,501	1,614,909	1,426,100	1,198,341	908,663	617,444	294,580
<Accumulated claims>							
2009. 1. 1 ~ 2009. 12.31	238,463	276,623	283,997	289,455	291,335	292,428	293,603
2010. 1. 1 ~ 2010. 12.31	267,448	310,236	317,294	319,658	320,711	321,680	—
2011. 1. 1 ~ 2011. 12.31	237,264	274,765	281,889	284,803	287,621	—	—
2012. 1. 1 ~ 2012. 12.31	228,612	274,558	281,648	284,431	—	—	—
2013. 1. 1 ~ 2013. 12.31	192,080	223,487	227,722	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	166,028	193,494	—	—	—	—	—
2015. 1. 1 ~ 2015. 12.31	173,762	—	—	—	—	—	—
Total accumulated claims	1,503,657	1,553,163	1,392,550	1,178,347	899,667	614,108	293,603
Difference (Total estimated claims - Total accumulated claims)	270,844	61,746	33,550	19,994	8,996	3,336	977

(2014)

(In millions of Korean won)

Year of event	Progress by year						
	1 year	2 years	3 years	4 years	5 years	6 years	7 years
<Estimated claims (accumulated basis)>							
2008. 1. 1 ~ 2008. 12.31	209,637	216,934	219,140	220,282	220,769	220,908	220,902
2009. 1. 1 ~ 2009. 12.31	275,783	287,712	292,106	295,157	294,787	294,297	—
2010. 1. 1 ~ 2010. 12.31	304,980	319,583	321,882	323,297	323,182	—	—
2011. 1. 1 ~ 2011. 12.31	278,540	286,318	289,860	290,335	—	—	—
2012. 1. 1 ~ 2012. 12.31	279,075	286,184	289,231	—	—	—	—
2013. 1. 1 ~ 2013. 12.31	228,815	232,179	—	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	200,987	—	—	—	—	—	—
Total estimated claims	1,777,817	1,628,910	1,412,219	1,129,071	838,738	515,205	220,902
<Accumulated claims>							
2008. 1. 1 ~ 2008. 12.31	175,676	208,084	213,411	216,581	219,573	219,814	219,944
2009. 1. 1 ~ 2009. 12.31	238,463	276,623	283,997	289,455	291,335	292,428	—
2010. 1. 1 ~ 2010. 12.31	267,448	310,236	317,294	319,658	320,711	—	—
2011. 1. 1 ~ 2011. 12.31	237,264	274,765	281,889	284,803	—	—	—
2012. 1. 1 ~ 2012. 12.31	228,612	274,558	281,648	—	—	—	—
2013. 1. 1 ~ 2013. 12.31	192,080	223,487	—	—	—	—	—
2014. 1. 1 ~ 2014. 12.31	166,028	—	—	—	—	—	—
Total accumulated claims	1,505,571	1,567,753	1,378,239	1,110,497	831,619	512,242	219,944
Difference (Total estimated claims - Total accumulated claims)	272,246	61,157	33,980	18,574	7,119	2,963	958

④ Long-term insurance

(2015)

(In millions of Korean won)

Year of event	Year of Progress 1 year	2 years	3 years	4 years	5 years
<Estimated claims (accumulated basis)>					
2011. 1. 1 ~ 2011. 12.31	348,680	444,527	457,638	459,798	459,713
2012. 1. 1 ~ 2012. 12.31	421,889	535,548	550,587	553,702	—
2013. 1. 1 ~ 2013. 12.31	502,168	623,614	639,926	—	—
2014. 1. 1 ~ 2014. 12.31	578,167	715,957	—	—	—
2015. 1. 1 ~ 2015. 12.31	644,124	—	—	—	—
Total estimated claims	2,495,028	2,319,646	1,648,151	1,013,500	459,713
<Accumulated claims>					
2011. 1. 1 ~ 2011. 12.31	343,260	441,387	454,781	456,980	457,570
2012. 1. 1 ~ 2012. 12.31	408,104	529,879	546,971	550,863	—
2013. 1. 1 ~ 2013. 12.31	471,954	612,151	632,831	—	—
2014. 1. 1 ~ 2014. 12.31	540,963	705,573	—	—	—
2015. 1. 1 ~ 2015. 12.31	610,561	—	—	—	—
Total accumulated claims	2,374,842	2,288,990	1,634,583	1,007,843	457,570
Difference (Total estimated claims - Total accumulated claims)	120,186	30,656	13,568	5,657	2,143

(2014)

(In millions of Korean won)

Year of event	Progress by year 1 year	2 years	3 years	4 years	5 years
<Estimated claims (accumulated basis)>					
2010. 1. 1 ~ 2010. 12.31	297,417	380,977	390,535	391,048	391,307
2011. 1. 1 ~ 2011. 12.31	348,933	444,566	457,602	459,788	—
2012. 1. 1 ~ 2012. 12.31	422,149	534,781	549,803	—	—
2013. 1. 1 ~ 2013. 12.31	503,299	624,028	—	—	—
2014. 1. 1 ~ 2014. 12.31	578,857	—	—	—	—
Total estimated claims	2,150,655	1,984,352	1,397,940	850,836	391,307
<Accumulated claims>					
2010. 1. 1 ~ 2010. 12.31	293,898	378,177	388,818	389,928	390,195
2011. 1. 1 ~ 2011. 12.31	343,514	441,426	454,745	456,944	—
2012. 1. 1 ~ 2012. 12.31	408,364	529,113	546,162	—	—
2013. 1. 1 ~ 2013. 12.31	473,085	612,330	—	—	—
2014. 1. 1 ~ 2014. 12.31	541,941	—	—	—	—
Total accumulated claims	2,060,802	1,961,046	1,389,725	846,872	390,195
Difference (Total estimated claims - Total accumulated claims)	89,853	23,306	8,215	3,964	1,112

2) Result of sensitivity analysis as of December 31, 2015 and 2014 is as follows:

(2015)

(In millions of Korean won)

Description	Variable amounts LAT base	Insurance liabilities	Profit before tax(*)	Equity
10% decrease in discount rate	762,333	—	—	—
10% increase in loss rate	787,144	7,078	(5,100)	(3,866)
10% increase in business expenses rate	175,744	—	—	—
10% increase in claim adjustment ratio	1,276	—	—	—
10% increase in surrender rate	64,091	—	—	—
10% decrease in surrender rate	(68,067)	—	—	—

(*) Rate of reinsurance ceded of 27.95% was considered to calculate profit before tax as assessed amount of original insurances.

(2014)

(In millions of Korean won)

Description	Variable amounts LAT base	Insurance liabilities	Profit before tax(*)	Equity
10% decrease in discount rate	433,187	—	—	—
10% increase in loss rate	516,218	5,835	(4,177)	(3,166)
10% increase in business expenses rate	127,393	—	—	—
10% increase in claim adjustment ratio	1,166	—	—	—
10% increase in surrender rate	(26,437)	—	—	—
10% decrease in surrender rate	46,168	—	—	—

(*) Rate of reinsurance ceded of 28.41% was considered to calculate profit before tax as assessed amount of original insurances.

(6) Maturity analysis of insurance contract liabilities

Maturities of premium reserves as of December 31, 2015 and 2014 are as follows:

(2015)

(In millions of Korean won)

Description	Less than 1 year	1 year ~ less than 5 years	5 years~ less than 10 years	10 years~ less than 20 years	20 years and over	Total
Long-term	145,536	717,964	940,460	618,002	4,634,216	7,056,178
Annuity	107	7,717	25,201	82,473	132,109	247,607
Total	145,643	725,681	965,661	700,475	4,766,325	7,303,785

(2014)

(In millions of Korean won)

Description	Less than 1 year	1 year ~ less than 5 years	5 years~ less than 10 years	10 years~ less than 20 years	20 years and over	Total
Long-term	165,718	421,473	863,724	644,336	3,859,365	5,954,616
Annuity	84	6,884	23,801	78,047	121,238	230,054
Total	165,802	428,357	887,525	722,383	3,980,603	6,184,670

(7) Concentration of insurance risk and reinsurance policies

1) Status and strategies of reinsurance

The non-life insurance segment sells various insurance contracts such as general insurances (i.e. fire, marine, accident, engineering, liability, comprehensive, other casualty, and others), automobile insurances (i.e. personal vehicles, business vehicles, two wheeled vehicle, and others) and long-term insurances (i.e. property, accident, driver, saving, sickness, annuity, and others). In additions to insurance contract diversification, the non-life insurance segment spreads risk over reinsurance ceded and reinsurance assumed, joint-underwriting of risk, and others. The non-life insurance segment also controls risk of product such as storm-and-flood damage insurance, which has a low probability of occurrence but guarantees risk of severe damage, by setting limits on underwriting, and joint-underwriting.

On the other hand, the non-life insurance segment updates operational strategies of reinsurance every year and these strategies are resolved by the Risk Management Committee before implementation. Reinsurance transactions are made according to operational strategies of reinsurance. However, when underwriting a contract exceeding the limit, a decision on whether to accept the contract is made after due deliberation by the Risk Management Committee.

2) Credit ratings of reinsurance companies

The credit ratings of major reinsurance companies of the non-life insurance segment (based on A.M.BEST) as of December 31, 2015 and 2014 are as follows:

Reinsurance company	2015	2014
KOREAN REINSURANCE CO., LTD	A	A-
Munich Reinsurance Company	A+	A-
AIG	A	A+
HYUNDAI MARINE&FIRE INSURANCE CO., LTD.	A-	A
XL Re	A+	A
HANNOVER RUECKVERSICHERUNG AG	A+	A-

3) Premiums for reinsurance ceded per reinsurer category

The details of premiums for reinsurance ceded per category of reinsurers having investment grade credit ratings for the years ended December 31, 2015 and 2014 are as follows:

(In millions of Korean won)

Description	2015	2014
General insurance	88,414	96,757
Automobile insurance	76,495	74,170
Long-term - individual annuity insurance	377,644	333,652
Total	542,553	504,579

4) Credit quality of reinsurance assets

The details of credit quality of reinsurance assets as of December 31, 2015 and 2014 are as follows:

(2015)

(In millions of Korean won)

Description	AAA	AA+ ~ AA-	A+ ~ BBB-	Total
Reserve for outstanding claims for reinsurance ceded	27,145	124,225	91	151,461
Unearned premiums for reinsurance ceded	2,395	76,937	249	79,581
Total	29,540	201,162	340	231,042

(2014)

(In millions of Korean won)

Description	AAA	AA+ ~ AA-	A+ ~ BBB-	Total
Reserve for outstanding claims for reinsurance ceded	4,932	156,947	1,865	163,744
Unearned premiums for reinsurance ceded	3,589	70,554	138	74,281
Total	8,521	227,501	2,003	238,025

II-3. Interest rate risk management

(1) Overview

Interest rate risk is risk of loss due to fluctuation of interest rate in the future market and difference between maturity structure of asset and liability.

(2) Interest rate risk measurement and management procedures

1) Measurement method

Both standard model and internal model in RBC are used to measure the interest rate risk.

① Standard model

The amount of interest rate risk according to the RBC requirements is the larger of the following two amounts.

A) |Amounts of assets sensitive to interest rate - Amounts of liabilities sensitive to interest rate| x Range of interest rate fluctuation

Amounts of assets sensitive to interest rate and amounts of liabilities sensitive to interest rate are sum of corresponding exposure multiplied by risk coefficient (interest rate sensitivity).

B) Minimum interest rate risk

The amount of minimum interest rate risk is (floating-rate type of insurance liabilities x 2.19% + other insurance liabilities x 2.83%).

② Internal model

Internal model in the non-life insurance segment uses the ALM system to calculate duration by simulating the future cash flows of interest earning assets and interest bearing liabilities according to interest rate fluctuation.

2) Management procedures

Based on the RBC requirements, the non-life insurance segment is using limit on interest rate risk set at the beginning of business year, in which risk management strategies, business plans, asset management plans, and others are taken into account. The amount of risk measured using the internal model of the non-life insurance segment is used as a complementary index. In addition, the non-life insurance segment established Strategic Asset Allocation (SAA) in the light of interest rates and maturities of liabilities, and is carrying out asset management accordingly. For the duration match, the segment is taking a strategy to increase assets by including stable and long-term assets while increasing sales of floating-rate type products for liabilities.

Furthermore, the non-life insurance segment manages interest rate risk by reducing the difference between operating asset duality and insurance liability duality through a procedure that reflecting profitability of asset management and market rates in an assumed interest rate calculation and a quoted interest rate calculation The calculation method of quoted interest rate is determined via a resolution by the Risk Management Committee, and the quoted interest rate is approved by a director in charge of risk management following a discussion among related teams in the monthly interest rate calculation meeting.

(3) Interest rate risk exposure

Details of interest rate risk exposure as of December 31, 2015 and 2014 are as follows:

(In millions of Korean won)

Description	2015	2014
I. Interest bearing liabilities (*1)	6,568,573	5,371,364
1. Fixed rate type	200,974	205,548
2. Floating rate type	6,367,599	5,165,816
II. Interest earning assets (*2)	6,813,866	5,408,252
1. Deposits	441,137	493,109
2. Financial assets at FVTPL	353,402	199,524
3. AFS financial assets	2,397,221	2,962,157
4. HTM financial assets	1,280,257	—
5. Loans receivable	2,341,849	1,753,462
Exposure (I - II)	(245,293)	(36,888)

(*1) It is (Premium reserve - surrender reduction + Unearned premium reserve) for insurance contracts in which applicable interest rate is determined in connection with pension savings non-life insurance, tax support personal pension non-life insurance, long-term non-life insurance, and profitability and index of specific assets.

(*2) Asset exposures are assets that earn interest. Therefore, general account and short-term trading securities, commission earning assets without interest earning, non-performing assets as per credit rating classification and accrued income are excluded from interest earning assets.

(4) Interest rate sensitivity

Interest rate sensitivity as of December 31, 2015 and 2014 is as follows:

1) Details of asset - liability exposures per remaining maturity

(2015)

(In millions of Korean won)

Description	Less than 3 years	3 years ~ less than 5 years	5 years and over	Total
Interest-earning assets (a)	1,274,918	658,184	4,880,764	6,813,866
Interest-bearing liabilities (b)	480,243	379,824	5,708,506	6,568,573
Gap (a-b)	794,675	278,360	(827,742)	245,293

(2014)

(In millions of Korean won)

Description	Less than 3 years	3 years ~ less than 5 years	5 years and over	Total
Interest-earning assets (a)	1,252,667	585,998	3,569,587	5,408,252
Interest-bearing liabilities (b)	416,308	163,097	4,791,959	5,371,364
Gap (a-b)	836,359	422,901	(1,222,372)	36,888

2) Status of floating-rate type liabilities for each minimum guaranteed interest rate

The Group reserves for a floating rate contract based on a quoted interest rate. Market interest rate and profitability of asset management of the non-life insurance segment are reflected in the quoted interest rate calculation. Minimum guaranteed interest rate is defined in terms and conditions of each product. If the quoted interest rate falls below the minimum guaranteed interest rate of product, the non-life insurance segment sets premium reserves at the minimum guaranteed interest rate.

(2015)

(In millions of Korean won)

Description	0% and below	Over 0% ~ 2%	Over 2% ~ 3%	Over 3% ~ 4%	Over 4%	Total
Floating-rate liabilities	6,825	2,001,920	1,011,409	833,397	10	3,853,561

(2014)

(In millions of Korean won)

Description	0% and below	Over 0% ~ 2%	Over 2% ~ 3%	Over 3% ~ 4%	Over 4%	Total
Floating-rate liabilities	6,992	1,831,660	515,803	1,102,869	55	3,457,379

3) Status of duration

The sensitivity of assets and liabilities in accordance with changes in the market interest rates calculated based on RBC as of December 31, 2015 and 2014 is as follows:

Description	2015 Assets	2015 Liabilities	2014 Assets	2014 Liabilities
Interest rate sensitivity	5.30	6.26	4.61	5.90

II-4. Credit risk management

(1) Overview

The credit risk represents the risk of loss arising from the counterparty's default or breach of a contract in which funds were granted to an individual or a corporate in form of loans or purchase of bonds, or in which the exchange is promised at a fixed price at a certain time in the future.

(2) Credit risk measurement and management procedures

1) Measurement method

The credit risk is measured by using a RBC standard model. Under the RBC requirements, the amount of credit risk is calculated differently in accordance with type of asset, degree of collateral and guarantee, and credit rating assigned by a qualified credit rating agency.

2) Management procedures

The non-life insurance segment divides object of credit risk management into two groups, individuals and separate entities (i.e. general companies and financial companies). The credit risks of individuals are managed in accordance with loan regulations. On the other hand, credit risk managements for separate entities are classified into trading limits management, investment and loan grade management, and selecting and managing institution(s) to deal with short-term financial transactions depending on their credit risk level and characteristics of transaction(s) being traded. Assets subject to credit risks are classified by risk factor and periodically monitored while credit risk limits are established to manage concentrations of credit risk. In addition, if the borrower's credit rating is downgraded, the segment will adjust terms to a full or partial redemption at maturity in the light of the reassessed credit rating. The borrower or issuer, on the other hand, can take actions such as requiring prepayment if it is determined that one has a question on credit of the other party.

(3) Credit risk exposure

1) Degree of maximum credit risk exposure

The degree of maximum exposures to credit risk as of December 31, 2015 and 2014 are as follows:

(In millions of Korean won)

Description	2015	2014
Cash and deposits(*1)	505,010	526,796
Short-term trading financial assets(*2)	71,719	133,558
Financial assets at FVTPL (*2)	333,874	170,990
AFS financial assets(*2)	1,656,219	2,528,335
HTM financial assets	1,302,591	—
Derivatives for hedging	6,729	8,391
Loans receivable(*3)	2,427,872	1,820,236
Other assets(*4)	298,301	277,382
Total	6,602,315	5,465,688

(*1) Excluding cash on hand

(*2) Excluding equity investments and beneficiary certificates

(*3) Allowance for doubtful accounts, deferred subsidiary expenses (earnings) for loan, and present value discounts are added or subtracted.

(*4) Allowance for doubtful accounts is added or subtracted from the amount of insurance receivables, non-trade receivables and others.

2) Maximum exposure after reinforcing credit risk

Maximum exposure after reinforcing credit risk as of December 31, 2015 and 2014 is as follows:

(2015)

(In millions of Korean won)

Description	Max exposure	Offsetting(*)	Credit reinforcement methods				Maximum exposure after reinforcing credit risk
			Refund of surrender	Collateral	Guarantee	Others	
Cash and deposits	505,010	—	—	—	—	—	505,010
Short-term trading financial assets	71,719	—	—	—	—	—	71,719
FVTPL	333,874	—	—	—	—	—	333,874
AFS financial assets	1,656,219	—	—	—	23,984	—	1,632,235
HTM financial assets	1,302,591	—	—	—	—	—	1,302,591
Derivative assets for hedging	6,729	—	—	—	—	—	6,729
Loans receivable	2,427,872	—	365,112	678,017	147,703	908,686	328,354
Other assets	298,301	131,194	—	—	—	—	167,107
Total	6,602,315	131,194	365,112	678,017	171,687	908,686	4,347,619

(2014)

(In millions of Korean won)

Description	Max exposure	Set-off(*)	Credit reinforcement methods				Maximum exposure after reinforcing credit risk
			Refund of surrender	Collateral	Guarantee	Others	
Cash and deposits	526,796	—	—	—	—	—	526,796
Short-term trading financial assets	133,558	—	—	—	—	—	133,558
FVTPL	170,990	—	—	—	—	—	170,990
AFS financial assets	2,528,335	—	—	—	23,085	—	2,505,250
Derivative assets for hedging	8,391	—	—	—	—	—	8,391
Loans receivable	1,820,236	—	267,495	423,995	45,776	781,048	301,922
Other assets	277,382	114,334	—	—	—	—	163,048
Total	5,465,688	114,334	267,495	423,995	68,861	781,048	3,809,955

(*) The amount of obligation to pay for the same borrower

(4) Concentrations of credit risk

1) Concentrations by country

(2015)

(In millions of Korean won)

Description	Republic of Korea	United Kingdom	Others	Total
Cash and deposits	505,010	—	—	505,010
Short-term trading financial assets	71,719	—	—	71,719
FVTPL	329,303	4,571	—	333,874
AFS financial assets	1,655,839	—	380	1,656,219
HTM financial assets	1,302,591	—	—	1,302,591
Derivative assets for hedging	6,729	—	—	6,729
Loans receivable	2,427,872	—	—	2,427,872
Total	6,299,063	4,571	380	6,304,014

(2014)

(In millions of Korean won)

Description	Republic of Korea	United Kingdom	Others	Total
Cash and deposits	526,796	—	—	526,796
Short-term trading financial assets	133,558	—	—	133,558
FVTPL	166,703	4,287	—	170,990
AFS financial assets	2,517,633	—	10,702	2,528,335
Derivative assets for hedging	8,391	—	—	8,391
Loans receivable	1,820,236	—	—	1,820,236
Total	5,173,317	4,287	10,702	5,188,306

2) Concentrations by industry

(2015)

(In millions of Korean won)

Description	Finance	government and government investment institution	Manufacturing	Service	Real estate	Private	Others	Total
Cash and deposits	505,010	—	—	—	—	—	—	505,010
Short-term trading financial assets	1,568	70,151	—	—	—	—	—	71,719
FVTPL	329,303	—	—	—	—	—	4,571	333,874
AFS financial assets	818,068	201,052	460,153	10,141	—	—	166,805	1,656,219
HTM financial assets	309,471	929,867	—	41,295	—	—	21,958	1,302,591
Derivative assets for hedging	6,729	—	—	—	—	—	—	6,729
Loans receivable	251,282	—	174,477	88,642	256,444	1,059,635	597,392	2,427,872
Total	2,221,431	1,201,070	634,630	140,078	256,444	1,059,635	790,726	6,304,014

(2014)

(In millions of Korean won)

Description	Finance	government and government investment institution	Manufacturing	Service	Real estate	Private	Others	Total
Cash and deposits	526,796	—	—	—	—	—	—	526,796
Short-term trading financial assets	1,752	121,784	10,022	—	—	—	—	133,558
FVTPL	133,946	—	32,757	—	—	—	4,287	170,990
AFS financial assets	924,296	1,239,373	280,364	38,513	—	—	45,789	2,528,335
Derivative assets for hedging	8,391	—	—	—	—	—	—	8,391
Loans receivable	148,070	—	175,286	103,495	180,207	515,153	698,025	1,820,236
Total	1,743,251	1,361,157	498,429	142,008	180,207	515,153	748,101	5,188,306

(5) Credit quality

1) Credit quality of loans

① Information on loan impairment

Information on whether the loans are impaired as of December 31, 2015 and 2014 is as follows:

(In millions of Korean won)

	2015			2014		
Description	Book value before deducting allowance for doubtful accounts	Allowance for doubtful accounts	Book value after deducting allowance for doubtful accounts	Book value before deducting allowance for doubtful accounts	Allowance for doubtful accounts	Book value after deducting allowance for doubtful accounts
Loans not past due nor impaired	2,393,155	(283)	2,392,872	1,787,377	(887)	1,786,490
Loans past due but not impaired	27,200	(192)	27,008	25,178	(413)	24,765
Impaired loans	12,927	(4,935)	7,992	13,512	(4,531)	8,981
Total	2,433,282	(5,410)	2,427,872	1,826,067	(5,831)	1,820,236

② Credit quality information on loans that are not past due nor impaired as of December 31, 2015 and 2014 are as follows:

A) Personal loans

(2015)

(In millions of Korean won)

Description	Level 1~2	Level 3~4	Level 5~6	Level 7~8	Level 9~10	unclassified level	Total
Policy loans	—	—	—	—	—	356,558	356,558
Loans secured by real estate	135,261	144,555	251,012	65,402	4,740	—	600,970
Unsecured loans receivable	2,620	10,671	18,705	3,737	239	—	35,972
Loans secured by third party guarantee	690	795	723	248	51	—	2,507
Other loans	8,649	11,089	11,231	2,828	166	—	33,963
Subtotal	147,220	167,110	281,671	72,215	5,196	356,558	1,029,970
Allowance for doubtful accounts	(46)	(52)	(80)	(21)	(1)	(77)	(277)
Total	147,174	167,058	281,591	72,194	5,195	356,481	1,029,693

(2014)

(In millions of Korean won)

Description	Level 1~2	Level 3~4	Level 5~6	Level 7~8	Level 9~10	unclassified level	Total
Policy loans	—	—	—	—	—	261,496	261,496
Loans secured by real estate	110,859	90,819	122,655	31,319	2,048	—	357,700
Unsecured loans receivable	20,094	23,096	16,757	2,846	273	—	63,066
Loans secured by third party guarantee	760	915	681	305	47	—	2,708
Other loans	16,030	20,428	22,381	6,175	1,236	—	66,250
Subtotal	147,743	135,258	162,474	40,645	3,604	261,496	751,220
Allowance for doubtful accounts	(266)	(222)	(294)	(75)	(6)	(12)	(875)
Total	147,477	135,036	162,180	40,570	3,598	261,484	750,345

B) Corporate Loans

(2015)

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	Non-rating	Total
Policy loans	—	—	—	—	8,554	8,554
Loans secured by real estate	—	—	—	—	40,866	40,866
Unsecured loans receivable	18,426	—	—	—	—	18,426
Other loans	612,072	31,165	227,286	76,825	347,991	1,295,339
Subtotal	630,498	31,165	227,286	76,825	397,411	1,363,185
Allowance for doubtful accounts	—	—	—	—	(6)	(6)
Total	630,498	31,165	227,286	76,825	397,405	1,363,179

(2014)

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	Non-rating	Total
Policy loans	—	—	—	6,000	6,000
Loans secured by real estate	—	—	—	39,750	39,750
Unsecured loans receivable	19,181	—	—	—	19,181
Other loans	426,461	46,287	306,435	192,043	971,226
Subtotal	445,642	46,287	306,435	237,793	1,036,157
Allowance for doubtful accounts	—	(8)	—	(4)	(12)
Total	445,642	46,279	306,435	237,789	1,036,145

③ Details of loans that are past due but not impaired as of December 31, 2015 and 2014 are as follows:

(2015)

(In millions of Korean won)

Description	1 day ~ 30 days	More than 30 days ~60 days	More than 60 days ~90 days	Total
Loans secured by real estate	20,931	2,052	643	23,626
Unsecured loans receivable	1,695	136	293	2,124
Loans secured by third party guarantee	12	—	—	12
Other loans	1,398	40	—	1,438
Subtotal	24,036	2,228	936	27,200
Allowance for doubtful accounts	(56)	(61)	(75)	(192)
Total	23,980	2,167	861	27,008

(2014)

(In millions of Korean won)

Description	1 day ~ 30 days	More than 30 days ~60 days	More than 60 days ~90 days	Total
Loans secured by real estate	18,773	757	740	20,270
Unsecured loans receivable	1,039	88	50	1,177
Loans secured by third party guarantee	31	—	—	31
Other loans	3,530	160	10	3,700
Subtotal	23,373	1,005	800	25,178
Allowance for doubtful accounts	(169)	(77)	(167)	(413)
Total	23,204	928	633	24,765

④ Details of impaired loans as of December 31, 2015 and 2014 are as follows:

(2015)

(In millions of Korean won)

Description	Book value before deducting allowance for doubtful accounts	Allowance for doubtful accounts	Book value after deducting allowance for doubtful accounts
Loans secured by real estate	5,492	(377)	5,115
Unsecured loans receivable	312	(64)	248
Other loans	7,123	(4,494)	2,629
Total	12,927	(4,935)	7,992

(2014)

(In millions of Korean won)

Description	Book value before deducting allowance for doubtful accounts	Allowance for doubtful accounts	Book value after deducting allowance for doubtful accounts
Loans secured by real estate	6,277	(844)	5,433
Unsecured loans receivable	112	(24)	88
Other loans	7,123	(3,663)	3,460
Total	13,512	(4,531)	8,981

⑤ Fair value of loans by collateral type as of December 31, 2015 and 2014 is as follows:

(2015)

(In millions of Korean won)

Description	Book value before deducting allowance for doubtful accounts	Credit reinforcement methods				
		Surrender value	Collateral	Guarantee	Others	Total
Loans not past due nor impaired	2,393,155	365,112	641,836	147,691	907,189	2,061,828
Loans past due but not impaired	27,200	—	23,626	12	1,437	25,075
Impaired loans	12,927	—	12,555	—	60	12,615
Total	2,433,282	365,112	678,017	147,703	908,686	2,099,518

(2014)

(In millions of Korean won)

Description	Book value before deducting allowance for doubtful accounts	Credit reinforcement methods				
		Surrender value	Collateral	Guarantee	Others	Total
Loans not past due nor impaired	1,787,377	267,495	397,449	45,745	769,541	1,480,230
Loans past due but not impaired	25,178	—	20,269	31	4,384	24,684
Impaired loans	13,512	—	6,277	—	7,123	13,400
Total	1,826,067	267,495	423,995	45,776	781,048	1,518,314

2) Credit quality of deposits and securities

① Credit quality as of December 31, 2015 and 2014 are as follows:

(In millions of Korean won)

Description	2015	2014
Deposits and Debt securities not past due nor impaired		
Cash, cash equivalents and deposits	505,010	526,796
Short-term trading financial assets	71,719	133,558
FVTPL	329,303	166,703
AFS financial assets	1,655,839	2,523,185
HTM financial assets	1,302,591	—
Subtotal	3,864,462	3,350,242
Impaired debt securities		
FVTPL	4,571	4,287
AFS financial assets	380	5,150
Subtotal	4,951	9,437
Total	3,869,413	3,359,679

② Details of composition by credit rating as of December 31, 2015 and 2014 are as follows:

(2015)

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	BB+ and below	Total
Cash, cash equivalent and deposits	108	348,535	155,286	4	1,077	505,010
Short-term trading financial assets	11,570	60,149	—	—	—	71,719
Financial assets at FVTPL	—	—	168,235	126,794	38,845	333,874
AFS financial assets	190,415	331,134	970,820	163,470	380	1,656,219
HTM financial assets	255,772	747,583	299,236	—	—	1,302,591
Total	457,865	1,487,401	1,593,577	290,268	40,302	3,869,413

(2014)

(In millions of Korean won)

Description	Risk free	AAA	AA+ ~ AA-	A+ ~ BBB-	BB+ and below	Total
Cash, cash equivalents and deposits	705	519,024	7,066	1	—	526,796
Short-term trading financial assets	31,294	51,237	51,027	—	—	133,558
Financial assets at FVTPL	51,128	—	82,942	—	36,920	170,990
AFS financial assets	506,027	976,900	906,680	133,578	5,150	2,528,335
Total	589,154	1,547,161	1,047,715	133,579	42,070	3,359,679

3) Credit quality of derivative assets for hedging

Credit quality of derivative assets for hedging as of December 31, 2015 and 2014 is as follows:

(2015)

(In millions of Korean won)

Description	Risk free	AAA	Total
Derivative assets for hedging	6,313	416	6,729

(2014)

(In millions of Korean won)

Description	Risk free	AAA	Total
Derivative assets for hedging	5,568	2,823	8,391

II-5. Market risk management

(1) Overview

Market risk is a risk of loss that may arise from unfavorable price changes in financial markets, such as stock price, interest rate, exchange rate, and etc. Key assets and liabilities subject to market risk by risk element are as follows:

Risk factor	Assets/ Liabilities	Amount of risk
Stock price	Equity instrument	Decrease in the present value of holding stocks due to decrease in the stock prices
Interest rate	Debt instrument	Decrease in the value of holding bonds due to increase in interest rates
Exchange rate	Foreign currency assets and liabilities	Decrease in the value of holding net foreign currency assets translated in KRW due to decrease in exchange rates

(2) Market risk measurement and management procedures

1) Measurement method

The market risk is measured by using a RBC standard model. The amount of market risk is measured by multiplying exposure of short-term trading financial assets, derivatives, and foreign currency assets and liabilities by corresponding market risk coefficient.

2) Management procedures

The market risk is regularly measured using the RBC standard model and results and issues of the measurement are reported to the management.

Information on securities market(s) (i.e. price, rate of return, sensitivity, etc.,)and information on assets held by the non-life insurance segment are assembled by asset category and by product on a daily basis and these information are then uploaded to a market risk management database. In addition, the market risk is measured by using a market risk management system while asset management limits, loss limits, and stop-loss limits are established quarterly by the Risk Management Committee.

(3) Market risk exposure

The market risk exposures as of December 31, 2015 and 2014 are as follows:

(In millions of Korean won)

Decryption	2015	2014
Position in interest rate	377,060	439,147
Position in foreign exchange	80,706	70,423
Total	457,766	509,570

(4) Sensitivity analysis

Sensitivity analysis of market risk exposure as of December 31, 2015 and 2014 is as follows:

(2015)

(In millions of Korean won)

Description	Changes	Effects on net income	Effects on other comprehensive income
Changes in foreign exchange rate	KRW100 increase	(4,169)	620
	KRW100 decrease	4,169	(620)
Changes in interest rate	100 bp increase	(11,197)	(101,027)
	100 bp decrease	11,197	101,027
Changes in stock price	10% increase	—	452
	10% decrease	—	(452)

(2014)

(In millions of Korean won)

Description	Changes	Effects on net income	Effects on other comprehensive income
Changes in foreign exchange rate	KRW100 increase	(4)	3,068
	KRW100 decrease	4	(3,068)
Changes in interest rate	100 bp increase	(4,383)	(156,166)
	100 bp decrease	4,383	156,166
Changes in stock price	10% increase	—	714
	10% decrease	—	(714)

II-6. Liquidity risk management

(1) Overview

Liquidity risk refers to the risk of loss due to inconsistency of maturities of assets and liabilities, or unexpected outflows of funds.

(2) Liquidity risk measurement and management procedures

All transactions that have effects on inflows/outflows of Korean won/foreign currency financed and managed are subject to liquidity risk management. The liquidity risks are regularly managed through a liquidity gap, a liquidity ratio, an inconsistent maturity ratio, and a cash flow gap among management evaluations.

In addition, the non-life insurance segment classifies assets by ability to securitize assets; and manages short-term funds including deposits, and liquidity balances including highly marketable securities daily in order to prepare for an urgent situation of claim payments.

(3) Analysis of outstanding periods to maturity of financial liabilities

The remaining outstanding periods to maturity of financial liabilities as of December 31, 2015 and 2014 are as follows:

(2015)

(In millions of Korean won)

Description		Up to 3 months	More than 3 months ~ 1 year	More than 1 year ~ 5 years	Over 5 years	Total
<Non-derivative financial liabilities>						
Debentures		2,596	7,787	166,403	77,605	254,391
Other liabilities		59,284	167,992	3,556	2,000	232,833
Total		61,880	175,779	169,959	79,605	487,224
<Derivative financial liabilities >						
FVTPL	Cash inflows	17,283	5,515	—	—	22,798
Financial	Cash Outflows	17,660	5,997	—	—	23,657
liabilities	Net cash flows	377	482	—	—	859
Derivative	Cash inflows	74,520	449,840	163,294	135,739	823,393
liability for	Cash Outflows	79,855	478,844	180,015	146,212	884,926
hedging	Net cash flows	5,335	29,004	16,721	10,473	61,533
Total		5,712	29,486	16,721	10,473	62,392

(2014)

(In millions of Korean won)

Description		Up to 3 months	More than 3 months ~ 1 year	More than 1 year ~ 5 years	Over 5 years	Total
<Non-derivative financial liabilities>						
Debentures		1,965	5,894	111,509	73,237	192,605
Other liabilities		72,558	158,953	3,971	—	235,482
Total		74,523	164,847	115,480	73,237	428,087
< Derivative financial assets >						
FVTPL	Cash inflows	30,387	2,636	5,515	—	38,538
Financial	Cash outflows	29,698	2,688	5,963	—	38,349
liabilities	Net cash flows	(689)	52	448	—	(189)
Derivative	Cash inflows	56,772	200,216	60,128	—	317,116
liability for	Cash outflows	57,486	210,580	63,198	—	331,264
hedging	Net cash flows	714	10,364	3,070	—	14,148
Amount		25	10,416	3,518	—	13,959

(*) The above amounts as per remaining maturity are different from the book value because the above amount was not discounted to present value. Other liabilities include only financial liabilities such as insurance payable and non-trade payables.

II-7. Capital adequacy assessment

(1) Overview

A capital adequacy assessment enables an entity to assess its capital adequacy by comparing required capital to pay for the assets and liabilities that are required for continuous business activities with its available capital.

(2) Capital adequacy assessment and management process

The non-life insurance segment calculates a Risk-based Capital (RBC) ratio base on available capital and required capital in conformity with the RBC requirements by the Financial Supervisory Service. The results, causes, and countermeasures are then reported to the management.

Financial Supervisory Service requires RBC ratio of over 100%. When RBC ratio is below 100%, the Group takes prompt corrective actions to maintain its financial health. The Group complies with the Risk-based capital (RBC) ratio required by the Financial Supervisory Service as of December 31, 2015 and December 31, 2014.

45. Unconsolidated structured entities

(1) Natures and scope of the interest in unconsolidated structured entities

The Group is involved in structured entities through investments in asset-backed securities, structured finance, and investment funds. The main characteristics of the structured entities are as follows:

Unconsolidated structured entities classified as ‘asset securitization’ is engaged in issuing asset-backed securities based on securitized assets as underlying assets and distributes principals and dividends of the asset-backed securities with sources such as borrowings or proceeds from management, operation and disposition of the securitized asset. ‘Asset securitization’ transfers risks related to the issuance of asset-backed securities through purchasing agreements with the Group or credit offering In relations to this, the Group recognizes interest income or commission income.

Unconsolidated structured entities, categorized as ‘structured finance’, include real estate project financing investment company, infrastructure, business corporation, and special purpose company for shipping (aircraft) finance. Each entity is established separately with limited purposes for efficiency, and raises funds through equity investments or loans from financial institutions and other participating institutions. ‘Structured finance’ is mainly used to finance large scale risky businesses. Investments are made based on economic feasibility of the specific business or project rather than credibility of the party undertaking the project or physical collaterals, and the investors take the profit generated in the course of the project. The Group provides funds to the structured entities for structured finance in the form of equity investments and others.

Unconsolidated structured entities, categorized as ‘investment fund’, include investment trust and private equity fund. Investment trusts invest and manage funds in accordance with the trust agreement, and distribute the profits to the investors. Private equity funds (PEFs) raise investment funds in private offering to acquire equity securities for participation in management or improvement of governance structures. The profits generated are distributed among investing members of the private equity funds. As an investor in investment funds, the Group recognizes gains (losses) on valuation of equity investments and dividend income based on the percentage of interest, and is exposed to loss of principal if values of the investment funds decrease.

(2) Details of the size of the unconsolidated structured entities and the nature of risks related to the Group's interests in the said entities are as follows.

(in millions of Korean won)	Asset-backed securities	Structured finance	Investment fund	Total
Assets recognized in the statement of financial position of the Group				
AFS financial assets	18,123	9,470	2,041,044	2,068,637
HTM financial assets	27,450	—	—	27,450
Loans	496,691	2,313,296	—	2,809,987
Total	542,264	2,322,766	2,041,044	4,906,074
Maximum exposure to losses(*1)	600,986	3,079,300	3,203,697	6,883,983
Total assets of unconsolidated structured entities(*2)	3,017,308	38,908,461	16,714,797	58,640,566

(*1) Maximum exposure to losses includes the investment assets recognized in the Group's financial statements and the amounts which are probable to be paid when certain conditions are met by agreements including purchase agreements, credit granting and others.

(*2) Total assets of the unconsolidated structured entities are as of December 31, 2015 whereas for some unconsolidated structured entities where it is difficult to obtain financial information, total assets are as of the closest day to the end of the reporting period.

Report on Review of Interim Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Heungkuk Life Insurance Co., Ltd.

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Heungkuk Life Insurance Co., Ltd. and its subsidiaries (collectively referred to as the "Group"). These financial statements consist of the consolidated interim statement of financial position of the Group as at June 30, 2017, and the related consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2017, and consolidated interim statements of changes in equity and cash flows for the six-month period ended June 30, 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Other Matters

The consolidated statements of comprehensive income for the three-month and six-month periods, changes in equity and cash flows for the six-month period ended June 30, 2016, presented herein for comparative purposes, were reviewed by another auditor whose report dated August 12, 2016. Based on their review, nothing has come to their attention that causes them to believe the accompanying financial statements do not present fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting.*

The consolidated financial statements of the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unqualified opinion on those statements, not presented herein, on March 9, 2017. The consolidated statement of financial position as at December 31, 2016, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2016.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers

August 14, 2017
Seoul, Korea

This report is effective as of August 14, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Heungkuk Life Insurance Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Financial Position
June 30, 2017 and December 31, 2016

(in millions of Korean won)	Notes	June 30, 2017 (Unaudited)	2016
Assets			
Cash and cash equivalents	6	₩ 151,268	₩ 343,589
Deposits	4,5,6	398,962	457,228
Securities	4,5,7	21,315,731	20,058,175
Loans receivables	4,5,9	8,814,798	8,740,417
Property and equipment	11	334,098	316,867
Investment property	11	673,595	627,427
Intangible assets	11	118,784	117,490
Derivative assets	4,5,10	81,987	23,628
Current tax assets		30,947	67,439
Other financial assets	4,5,9,12	776,343	836,622
Other assets	13	1,314,749	1,381,737
Separate account assets	17	3,000,640	2,667,276
Total assets		₩37,011,901	₩35,637,895
Liabilities and Equity			
Liabilities			
Insurance contract liabilities	14	₩30,860,880	₩29,400,736
Policyholders' equity adjustment	15	59,001	67,217
Borrowings	4,5,16	500,547	485,582
Deferred tax liabilities		166,913	145,241
Derivative liabilities	4,5,10	93,689	249,065
Net defined benefit liabilities		1,157	519
Provisions	19	9,337	10,951
Other financial liabilities	4,5,18	342,697	352,478
Other liabilities	20	222,482	352,472
Separate account liabilities	17	2,990,260	2,973,335
Total liabilities		35,246,964	34,037,596
Equity			
Share capital	21	67,917	67,917
Hybrid bond	21	34,930	—
Additional paid-in capital	21	98,448	98,419
Other components of equity	22	428,354	422,140
Retained earnings	23	921,040	826,431
Non-controlling interest		214,249	185,392
Total equity		1,764,937	1,600,299
Total liabilities and equity		₩37,011,901	₩35,637,895

The above consolidated interim statements of financial position should be read in conjunction with the accompanying notes.

Heungkuk Life Insurance Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2017 and 2016

(in millions of Korean won)	Notes	Period Ended June 30			
		2017 (Unaudited)		2016 (Unaudited)	
		Three months	Six months	Three months	Six months
Operating revenue					
Insurance premium income	25,32	1,798,408	3,674,259	2,038,079	4,061,830
Reinsurance income	26	149,594	312,982	177,742	328,951
Interest income	24,32	238,519	472,783	228,478	457,055
Gains on financial assets at fair value through profit or loss	24	39,853	54,090	15,055	32,861
Gains on valuation and disposal of loans and other receivables	24	4,934	4,934	6,617	9,133
Gains on foreign currency translation and transactions	24	23,553	25,053	6,567	12,214
Gain on disposal and valuation of derivatives	24	(83,151)	322,608	(20,545)	64,849
Other operating income		55,110	99,045	33,004	71,837
Fees from separate accounts		38,465	77,053	40,487	81,562
Separate account revenue	17	11,116	50,428	12,030	33,881
		2,276,402	5,093,235	2,537,514	5,154,174
Operating expense					
Change in reserves for insurance contracts	14	700,679	1,458,862	987,278	1,956,759
Insurance claims paid	27	1,022,554	2,108,793	979,679	1,993,016
Reinsurance expenses	26	165,798	318,124	168,132	307,770
Loss on compensation receivables		93	642	(17)	533
Business expenses	28	130,009	280,884	165,876	340,113
Amortization of deferred policy acquisition costs		137,222	276,717	155,704	310,465
Claim handling expenses	30	14,997	29,410	13,954	28,307
Property administration expenses	29	9,696	20,819	10,155	21,286
Loss on valuation and disposal of securities through profit or loss	24	2,817	7,535	8,071	14,532
Loss on valuation and disposal of trade receivables	24	3,617	6,093	574	3,404
Loss on foreign currency translation and transactions	24	(100,317)	296,165	(30,958)	47,569
Loss on valuation and disposal of derivatives	10,24	37,500	44,229	10,111	25,003
Interest expense	24,32	9,044	17,251	7,746	16,538
Other operating expense		9,168	17,263	6,444	11,887
Fees for separate accounts		2,952	7,415	9,911	21,854
Separate account expenses	17	11,116	50,428	12,030	33,881
		2,156,943	4,940,631	2,504,689	5,132,916
Operating profit		₩ 119,459	₩ 152,604	₩ 32,826	₩ 21,258
Non-operating income		2,657	12,151	1,390	2,121
Non-operating expenses		9,278	13,136	2,057	3,911
Profit before income tax		112,838	151,618	32,159	19,468
Income tax expense	31	23,811	32,375	6,810	(19,671)
Profit for the period		₩ 89,027	₩ 119,244	₩ 25,348	₩ 39,138

(in millions of Korean won)	Notes	Period Ended June 30			
		2017 (Unaudited)		2016 (Unaudited)	
		Three months	Six months	Three months	Six months
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Gain on revaluation of property and equipment		47,719	48,107	99	641
Remeasurements of net defined benefit liabilities		(86)	(52)	79	21
Items that may be subsequently reclassified to profit or loss					
Changes in the fair value of available-for-sale financial assets		(5,574)	(13,848)	120,517	217,935
Loss on valuation of held-to-maturity financial assets		(8,109)	(14,607)	(5,569)	(10,156)
Cash flow hedge		(6,411)	(10,020)	2,516	57
Other comprehensive income of separate accounts		(265)	605	10,462	20,615
Other comprehensive income for the period, net of tax		27,274	10,184	128,104	229,113
Total comprehensive income for the period		₩ 116,301	₩ 129,428	₩ 153,452	₩ 268,251
Profit is attributable to:					
Owners of the Parent Company	23	₩ 68,404	₩ 94,614	₩ 22,209	₩ 33,297
Non-controlling interest		20,623	24,630	3,139	5,842
		₩ 89,027	₩ 119,244	₩ 25,348	₩ 39,138
Total comprehensive income for the period is attributable to :					
Owners of the Parent Company		₩ 88,246	₩ 100,571	₩ 142,116	₩ 248,449
Non-controlling interest		28,055	28,857	11,336	19,802
		₩ 116,301	₩ 129,428	₩ 153,452	₩ 268,251
Earnings per share for profit attributable to the equity holders of the Parent Company		₩ 5,036	₩ 6,965	₩ 1,635	₩ 2,451

The above consolidated interim statements of comprehensive income should be read in conjunction with the accompanying notes.

Heungkuk Life Insurance Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
Six-Month Periods Ended June 30, 2017 and 2016

	Attributable to owners of the Parent Company								
			Additional Paid-in capital						
(in millions of Korean won)	Share capital	Hybrid bond	Share premium	Other capital surplus	Other Components of Equity	Retained Earnings	Total	Non-controlling interest	Total Equity
Balance at January 1, 2016	₩67,917	₩ —	₩80,429	₩18,009	₩403,448	₩781,183	₩1,350,986	₩178,774	₩1,529,760
Comprehensive income									
Profit for the period	—	—	—	—	—	33,297	33,297	5,842	39,138
Changes in the fair value of available-for-sale financial assets	—	—	—	—	202,393	—	202,393	15,543	217,935
Loss on valuation of held-to-maturity financial assets	—	—	—	—	(8,496)	—	(8,496)	(1,661)	(10,156)
Changes in the fair value of cash flow hedges derivatives	—	—	—	—	(44)	—	(44)	101	57
Other comprehensive income of separate accounts	—	—	—	—	20,615	—	20,615	—	20,615
Gain on revaluation of property and equipment	—	—	—	—	641	—	641	—	641
Remeasurement of net defined benefit liabilities	—	—	—	—	43	—	43	(22)	21
Transactions with owners									
Dividends paid	—	—	—	—	—	(10,188)	(10,188)	—	(10,188)
Others	—	—	—	(16)	—	—	(16)	—	(16)
Balance at June 30, 2016 (Unaudited)	₩67,917	₩ —	₩80,429	₩17,993	₩618,600	₩804,293	₩ 804,293	₩198,576	₩1,787,807
Balance at January 1, 2017	₩67,917	₩ —	₩80,429	₩17,990	₩422,140	₩826,431	₩1,414,907	₩185,392	₩1,600,299
Comprehensive income									
Profit for the period	—	—	—	—	—	94,614	94,614	24,630	119,244
Changes in the fair value of available-for-sale financial assets	—	—	—	—	(13,471)	—	(13,471)	(377)	(13,848)
Loss on valuation of held-to-maturity financial assets	—	—	—	—	(11,810)	—	(11,810)	(2,797)	(14,607)
Changes in the fair value of cash flow hedges derivatives	—	—	—	—	(9,160)	—	(9,160)	(860)	(10,020)
Other comprehensive income of separate accounts	—	—	—	—	605	—	605	—	605
Gain on revaluation of property and equipment	—	—	—	—	39,867	—	39,867	8,240	48,107
Remeasurement of net defined benefit liabilities	—	—	—	—	(75)	—	(75)	22	(52)
Transactions with owners									
Issuance of hybrid bond	—	34,930	—	—	—	—	34,930	—	34,930
Dividends paid	—	—	—	—	—	(5)	(5)	—	(5)
Others	—	—	—	29	257	—	286	—	286
Balance at June 30, 2017 (Unaudited)	₩67,917	₩34,930	₩80,429	₩18,019	₩428,354	₩921,040	₩1,550,688	₩214,249	₩1,764,937

The above consolidated interim statements of changes in equity should be read in conjunction with the accompanying notes.

Heungkuk Life Insurance Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Cash Flows
Six-Month Periods Ended June 30, 2017 and 2016

(in millions of Korean won)	Notes	Six-Month Period Ended June 30 2017 (Unaudited)	 2016 (Unaudited)
Cash flows from operating activities			
Profit for the period		₩ 119,244	₩ 39,138
Adjustments	34	1,178,332	1,735,384
Changes in operating assets and liabilities	34	(906,439)	(422,154)
Interest received		462,688	433,393
Interest paid		(13,216)	(14,340)
Dividends received		74,406	55,629
Income taxes paid		22,255	21,957
Net cash inflow from operating activities		937,272	1,849,008
Cash flows from investing activities			
Disposal of available-for-sale financial assets		3,399,428	1,457,622
Disposal of held-to-maturity financial assets		60,000	400,992
Changes in derivative financial instruments		51,480	(52,651)
Disposal of property and equipment and investment property		2	—
Disposal of intangible assets		—	141
Decrease in leasehold deposit provided		18,777	7,576
Cash inflows from business combination		18,158	—
Acquisition of available-for-sale financial assets		(2,735,102)	(3,250,839)
Acquisition of held-to-maturity financial assets		(1,968,252)	(649,746)
Acquisition of property and equipment and investment property		(12,580)	(9,038)
Acquisition of intangible assets		(8,200)	(3,207)
Restoration expenditure		(471)	(362)
Increase in leasehold deposit provided		(1,613)	(5,338)
Net cash outflow from investing activities		(1,178,373)	(2,104,848)
Cash flows from financing activities			
Proceeds from borrowings		14,970	—
Issuance of hybrid bond		34,930	—
Changes in non-controlling interest		(1,116)	(1,432)
Dividends paid		—	(10,188)
Net cash inflow(outflow) from financing activities		48,783	(11,619)
Net decrease in cash and cash equivalents		(192,318)	(267,460)
Cash and cash equivalents at the beginning of the year		343,589	491,195
Effects of exchange rate changes on cash and cash equivalents		(3)	—
Cash and cash equivalents at the end of the period		₩ 151,268	₩ 223,735

The above consolidated interim statements of cash flows should be read in conjunction with the accompanying notes.

1. General Information

Heungkuk Life Insurance Co., Ltd. (the Company), a parent company according to Korean IFRS 1110, was incorporated on May 21, 1950, under the laws of the Republic of Korea. The company currently has 6 regional headquarters, 61 branch offices for personal insurance and related reinsurance contracts as the main business purpose. Head office is on 68, Saemunan-ro, Jongno-gu, Seoul, Korea.

Share capital of June 30, 2017 is ₩67,917 million. Details of shareholders of the Group are as follows:

Name of shareholder	Number of shares	Percentage of ownership (%)
Lee Ho Jin	7,647,981	56.31
Lee Won Jun	1,990,189	14.65
Daehan Synthetic Fiber Co., Ltd.	1,416,646	10.43
ILJU Academy and Culture Foundation	638,342	4.70
Lee Dong Jun	500,000	3.68
Lee Tae Jun	500,000	3.68
Korea Book Promotion Co., Ltd.	395,147	2.91
Lee Jung Ah	247,532	1.82
Lee Sung Ah	247,532	1.82
	13,583,369	100.00

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated interim financial statements.

The Group's condensed consolidated interim financial statements for the six-month period ended June 30, 2017, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These condensed consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at June 30, 2017.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New standards and interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The Group will apply these amendments retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements because the Group is not a venture capital organization.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Enactments to Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 *Financial Instruments*

Korean IFRS 1109 *Financial instruments* was issued on September 25, 2015, and is effective for annual periods beginning on or after January 1, 2018. However, the Group plans to choose an optional temporary exemption from Korean IFRS 1109 as the Group's activities are predominantly connected with insurance. When the temporary exemption is permitted, the Group will defer the application of Korean IFRS 1109 until 2020. On September 13, 2016, the International Accounting Standards Board (IASB) published an amendment to IFRS 4, and the Korea Accounting Institute (KAI) is processing with the amendment to Korean IFRS 1104 *Insurance contracts*. The Group's activities are predominantly connected with insurance, and the portion of the total carrying amount of its liabilities related with insurance excesses 90 percent of the total carrying amount of its total liabilities as at December 31, 2015. These satisfy the requirements for applying the optional temporary exemption from applying Korean IFRS 1109. The Group expects Korean IFRS 1109 will be effective for annual periods beginning on or after January 1, 2021.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korean IFRS. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

The Group must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

The Group has been analyzing the financial effects of implementation of Korean IFRS 1115.

(c) Accounting polices

Significant accounting policies and method of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2016, except for the changes due to the application of amendment and enactments of standards described in Note 2.1 (a) and the one described below.

a) Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

b) Applying Revaluation Model in Land

The Group changed its subsequent measurement accounting policy of property and equipment from cost model to revaluation model for land. This is because the Group determined that revaluation model it provides more reliable and relevance information regarding to fair value of land. The Group appraised value of land by applying revaluation model, as described in Note 11.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting estimates and assumptions applied in the preparation of these condensed consolidated interim financial statements are the same as those that applied to the consolidated financial statements for the year ended December 31, 2016, except for the estimates used to determine income tax expense.

4. Fair Value Measurements

Fair Value Hierarchy

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

The fair value of assets and liabilities traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. These assets and liabilities are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of assets and liabilities are observable, such assets and liabilities are included in Level 2.

If one or more of the significant inputs is not based on observable market data, assets and liabilities are included in Level 3.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Fair value measurements by fair value hierarchy levels as at June 30, 2017 and December 31, 2016, are as follows:

	Details
Marketable securities	Listed securities which are traded in an active market are measured at quoted market prices. Otherwise, the value of the securities is determined by using valuation techniques from an independent external valuer. Independent external valuer determines more than one valuation technique which is deemed appropriate from models such as DCF (Discounted Cash Flow) model, IMV (Imputed Market Value) model, FCFE (Free Cash Flow to Equity Mode), dividend discount model, risk adjusted discount rate method, and net asset value method.
Loans receivable	Discounted cash flow model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flow, which are contractual cash flows adjusted by prepayment rate, at appropriate discount rate. For those loans with residual maturities of less than one year as of the acquisition date and the ones with interest rate reset period of less than three months, carrying amount is regarded as fair value.
Derivatives instruments	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC (over-the-counter) derivatives, fair value is determined by valuation techniques. Internally developed valuation models, which are widely used by market participants, are used to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, since some or all parameters are impossible to be observed in the market, some complex financial instruments are valued using independent third-party pricing services

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss	₩ 1,513	₩1,428,120	₩ 178,817	₩ 1,608,450
Available-for-sale financial assets	28,308	5,613,747	2,995,930	8,637,985
Derivative assets	—	73,544	8,443	81,987
	₩29,821	₩7,115,411	₩3,183,190	₩10,328,422
Financial liabilities				
Derivative liabilities	₩ —	₩ 93,453	₩ 236	₩ 93,689

(in millions of Korean won)	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss	₩11,002	₩1,068,701	₩ 317,570	₩ 1,397,273
Available-for-sale financial assets	8,533	6,381,692	3,009,115	9,399,340
Derivative assets	—	16,601	7,027	23,628
	₩19,535	₩7,466,994	₩3,333,712	₩10,820,241
Financial liabilities				
Derivative liabilities	₩ —	₩ 248,486	₩ 579	₩ 249,065

Changes in Level 3 for recurring fair value measurements for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017						
	Beginning balance	**Purchases**	**Disposals**	**Amortization**	**Valuation**	**Translation**	**Ending balance**
Financial assets:							
Financial assets at fair value through profit or loss	₩ 317,570	—	(133,284)	—	(646)	(4,823)	178,817
Available-for-sale financial assets	3,009,115	234,322	(203,732)	2,739	3,750	(50,264)	2,995,930
Derivative assets	7,027	531	(3,018)	—	3,903	—	8,443
	₩3,333,712	234,853	(340,034)	2,739	7,007	(55,087)	3,183,190
Financial liabilities							
Derivative liabilities	₩ 579	—	(579)	—	236	—	236

(in millions of Korean won)	2016						
	Beginning balance	**Purchases**	**Disposals**	**Amortization**	**Valuation**	**Translation**	**Ending balance**
Financial assets:							
Financial assets at fair value through profit or loss	₩ 810,508	—	(206,419)	—	(2,555)	(596)	600,938
Available-for-sale financial assets	2,292,768	688,814	(91,455)	577	54,985	(9,312)	2,936,377
Derivative assets	7,664	3,984	(363)	—	(2,763)	—	8,522
	₩3,110,940	692,798	(298,237)	577	49,667	(9,908)	3,545,837
Financial liabilities							
Derivative liabilities	690	—	—	—	(184)	—	506

As at June 30, 2017 and December 31, 2016, the financial instruments are measured at cost of ₩76,852 million and ₩81,076 million, respectively, whose fair value cannot be reliably measured and do not have quoted market price in an active market.

The Group's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer. There are no changes in valuation technique used in level 2 and level 3 fair value measurements.

The book amount and fair value of financial instruments not subsequently carried at fair value as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017		December 31, 2016	
	Book amount	**Fair value**	**Book amount**	**Fair value**
Financial assets				
Cash and cash equivalents	₩ 151,268	₩ 151,268	₩ 343,589	₩ 343,589
Deposits	398,962	398,962	457,228	457,228
Held-to-maturity financial assets	10,992,444	10,672,616	9,180,485	8,876,437
Loans receivable	8,814,798	9,042,434	8,740,417	9,035,259
Other financial assets	776,343	776,058	836,622	836,180
	₩21,133,815	₩21,041,338	₩19,558,341	₩19,548,693
Financial liabilities				
Borrowings	₩ 500,547	₩ 500,547	₩ 485,582	₩ 485,582
Other financial liabilities	342,697	341,759	352,478	351,553
	₩ 843,244	₩ 842,306	₩ 838,060	₩ 837,135

5. Financial Instruments by Category

Categorizations of financial assets and liabilities as at June 30, 2017 and December 31, 2016, are as follows:

(1) Financial assets

(in millions of Korean won)	June 30, 2017					
	Financial assets at fair value through profit or loss	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Loans and receivables**	**Derivatives for hedging**	**Total**
Cash and cash equivalents	₩ —	₩ —	₩ —	₩ 151,268	₩ —	₩ 151,268
Deposits	—	—	—	398,962	—	398,962
Securities	1,608,450	8,714,837	10,992,444	—	—	21,315,731
Loans receivable	—	—	—	8,814,798	—	8,814,798
Derivative assets	20,895	—	—	—	61,092	81,987
Other financial assets	—	—	—	776,343	—	776,343
	₩1,629,345	₩8,714,837	₩10,992,444	₩10,141,371	₩61,092	₩31,539,089

(in millions of Korean won)	December 31, 2016					
	Financial assets at fair value through profit or loss	**Available-for-sale financial assets**	**Held-to-maturity financial assets**	**Loans and receivables**	**Derivatives for hedging**	**Total**
Cash and cash equivalents	₩ —	₩ —	₩ —	₩ 343,589	₩ —	₩ 343,589
Deposits	—	—	—	457,228	—	457,228
Securities	1,397,274	9,480,416	9,180,485	—	—	20,058,175
Loans receivable	—	—	—	8,740,417	—	8,740,417
Derivative assets	15,898	—	—	—	7,730	23,628
Other financial assets	—	—	—	836,622	—	836,622
	₩1,413,172	₩9,480,416	₩9,180,485	₩10,377,856	₩7,730	₩30,459,659

(2) Financial liabilities

(in millions of Korean won)	June 30, 2017			
	Financial liabilities at fair value through profit or loss	**Financial liabilities carried at amortized cost**	**Derivatives for hedging**	**Total**
Borrowings	₩—	₩500,547	₩ —	₩500,547
Derivative liabilities	—	—	93,689	93,689
Other financial liabilities	—	342,697	—	342,697
	₩—	₩843,244	₩93,689	₩936,933

(in millions of Korean won)	December 31, 2016			
	Financial liabilities at fair value through profit or loss	**Financial liabilities carried at amortized cost**	**Derivatives for hedging**	**Total**
Borrowings	₩—	₩485,582	₩ —	₩ 485,582
Derivative liabilities	864	—	248,201	249,065
Other financial liabilities	—	352,478	—	352,478
	₩864	₩838,060	₩248,201	₩1,087,125

6. Cash and Cash Equivalents, and Deposits

Cash and cash equivalents and deposits as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	**June 30, 2017**	**December 31, 2016**
Cash and cash equivalents		
Cash and demand deposits	₩ 78,983	₩ 52,657
Cash management accounts ("CMA") and others	77,285	290,932
	151,268	343,589
Bank deposits		
Term deposits	301,722	342,282
Others	97,240	114,946
	398,962	457,228
	₩550,230	₩800,817

Details of restricted deposits as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	**Financial institution**	**June 30, 2017**	**December 31, 2016**	**Reason for restrictions**
Term deposits	KEB Hana Bank	₩5,554	₩5,554	Establishment of a pledge right related to lease agreement
Ordinary account	Shinhan Bank	43	—	Litigation related foreclosure
Checking account	KEB Hana Bank	7	8	Guarantees for deposit for opening of checking account
		₩5,604	₩5,562	

7. Marketable Securities

Marketable securities as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	**June 30, 2017**	**December 31, 2016**
Financial assets at fair value through profit or loss	₩ 1,608,450	₩ 1,397,274
Available-for-sale financial assets	8,714,837	9,480,416
Held-to-maturity financial assets	10,992,444	9,180,485
	₩21,315,731	₩20,058,175

Details of financial assets at fair value through profit or loss as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	**June 30, 2017**	**December 31, 2016**
Trading securities		
Equity securities:		
Stocks	₩ 1,513	₩ 1,043
Beneficiary certificates	1,259,940	806,331
Debt securities:		
Special bonds	—	20,034
Corporate bonds	64,464	86,421
Other securities	80,900	131,492
	1,406,817	1,045,321
Financial assets designated as at fair value through profit or loss[1]		
Debt securities:		
Financial bonds	20,692	21,195
Corporate bonds	—	20,308
Overseas securities	105,725	111,249
Other securities	75,216	199,201
	201,633	351,953
	₩1,608,450	₩1,397,274

[1] Compound financial instruments containing one or more embedded derivatives are designated as at fair value through profit or loss in its entirety.

Details of available-for-sale financial assets as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	**June 30, 2017**	**December 31, 2016**
Equity securities:		
Stocks	₩ 96,564	₩ 104,785
Investments	8,707	12,232
Beneficiary certificates	2,933,603	2,666,245
Overseas securities	5,470	5,674
	3,044,344	2,788,936
Debt securities:		
Government and public bonds	619,124	324,993
Special bonds	976,334	956,866
Financial bonds	345,316	731,758
Corporate bonds	755,548	1,549,800
Overseas securities	2,408,942	2,556,207
Other securities	565,229	571,856
	5,670,493	6,691,480
	₩8,714,837	₩9,480,416

The available-for-sale financial assets at June 30, 2017 includes borrowings of ₩164,000 million and USD40,000 thousand (₩62,000 million at December 31, 2016). These transfer transactions do not meet the derecognition requirements in accordance with Korean IFRS 1039. The Group receives commission through the loan of financial assets currently held in Securities Depository as at June 30, 2017 and December 31, 2016.

Changes in the fair value of available-for-sale financial assets for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Beginning balance	Valuation	Profit or loss	Transfer	Impairment	Ending Balance
Changes in the fair value of available-for-sale financial assets	₩ 69,231	₩29,050	₩(49,384)	₩1,245	₩(1,812)	₩ 48,330
The amount allocated to policyholders' equity adjustment	4,123					677
The amount allocated to non-controlling interest	13,908					13,530
The amount allocated to shareholders' equity	51,200					34,123
Deferred tax effect	(15,032)					(11,169)
Shareholders' equity, net of deferred tax	₩ 36,168					₩ 22,954

(in millions of Korean won)	2016					
	Beginning balance	Valuation	Profit or loss	Transfer	Impairment	Ending Balance
Changes in the fair value of available-for-sale financial assets	₩245,971	₩329,638	₩(13,331)	₩—	₩—	₩ 562,278
The amount allocated to policyholders' equity adjustment	24,341					53,152
The amount allocated to non-controlling interest	34,175					49,717
The amount allocated to shareholders' equity	187,455					459,409
Deferred tax effect	(50,970)					(120,531)
Shareholders' equity, net of deferred tax	₩136,485					₩ 338,878

Details of impairment losses on available-for-sale financial assets for the six-month periods ended June 30, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Investment	₩1,258	₩—

Details of held-to-maturity financial assets as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017	December 31, 2016
Government and public bonds	₩ 2,431,239	₩2,012,517
Special bonds	3,293,660	2,742,240
Financial bonds	653,983	667,569
Corporate bonds	2,144,014	2,011,987
Overseas securities	2,469,548	1,746,172
	₩10,992,444	₩9,180,485

As intention of possessing is changed, the Group transfer ₩2,867,457 million available-for-sale financial assets to held-to-maturity financial assets. The Group used fair value of transfer date. Reclassified gain or loss of available-for-sale financial assets valuation (accumulated other comprehensive income) is amortized by effective interest method during the remaining period.

Held-to-maturity financial assets include security lending transaction of ₩147,000 million and $160,000 thousand (2016: ₩335,000 million and $60,000 thousand). In contracts such as securities lending transactions, the Group continues to recognize the financial assets on the statements of financial position since it transfers the financial assets but those transactions are not qualified for derecognition.

Changes in the fair value of held-to-maturity financial assets for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Beginning balance	**Valuation**	**Profit or loss**	**Amortization**	**Ending Balance**
Changes in the fair value of held-to-maturity financial assets	₩ 515,318	₩—	₩—	₩(25,651)	₩ 489,667
The amount allocated to policyholders' equity adjustment	58,142				51,708
The amount allocated to non-controlling interest	44,483				41,686
The amount allocated to shareholders' equity	412,693				396,273
Deferred tax effect	(109,345)				(104,735)
Shareholders' equity, net of deferred tax	₩ 303,348				₩ 291,538

(in millions of Korean won)	2016				
	Beginning balance	**Valuation**	**Profit or loss**	**Amortization**	**Ending Balance**
Changes in the fair value of held-to-maturity financial assets	₩353,879	₩—	₩—	₩(19,812)	₩334,067
The amount allocated to policyholders' equity adjustment	59,227				52,772
The amount allocated to non-controlling interest	31,882				30,221
The amount allocated to shareholders' equity	262,770				251,074
Deferred tax effect	(70,500)				(67,300)
Shareholders' equity, net of deferred tax	₩192,270				₩183,774

8. Subsidiaries

Details of subsidiaries as at June 30, 2017 and December 31, 2016, are as follows:

Name of company	Main operating activity	Location	Closing date	Ownership held by the Group (%) June 30, 2017	Ownership held by the Group (%) December 31, 2016
Subsidiaries					
Heungkuk Fire&Marine Insurance Co., Ltd.	Insurance	Korea	December 31	59.6	59.6
Beneficiary certificates					
Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	Collective investment schemes (security)	Korea	June 3	61.6	60.0
Heungkuk Market Leaders Securities Investment Trust[Equity] C-I	Collective investment schemes (security)	Korea	—	—	72.5
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	Collective investment schemes (real estate)	Korea	June 30	60.0	60.0
Darby Hana BTL Special Asset Trust Fund II	Collective investment schemes (real estate)	Korea	April 3	65.5	65.5
Darby Hana Renewable Energy Special Asset Trust Fund	Collective investment schemes (real estate)	Korea	April 3	71.4	71.4
Heungkuk Global Private Placement Special Asset Investment Trust No.1	Collective investment schemes (security)	Korea	November 18	68.8	68.8
Heungkuk Dollar Balanced 40 Securities Feeder Investment Trust[Balanced Fund]	Collective investment schemes (security)	Korea	April 2	100.0	—
HANGANG PAJUYANGJU BTL FUND(SOC)	Collective investment schemes (real estate))	Korea	July 5	50.0	—
Heungkuk Highclass Private Bond Trust 1	Collective investment schemes (security)	Korea	January 2	100.0	100.0

Changes in subsidiaries for the six-month periods ended June 30, 2017 are as follows:

	Name of company	Reason
Exclude	Heungkuk Market Leaders Securities Investment Trust[Equity] C-I	Excluded from subsidiaries due to decrease in equity ratio
Include	Heungkuk Dollar Balanced 40 Securities Feeder Investment Trust[Balanced Fund]	Included to subsidiaries due to acquisition of additional share
Include	HANGANG PAJUYANGJU BTL FUND(SOC)	Included to subsidiaries due to acquisition of additional share

Financial information of subsidiaries of the Group as at June 30, 2017 and 2016, is as follows:

(in millions of Korean won)	2017					
	Total assets	**Total liabilities**	**Total equity**	**Operating profit**	**Profit (loss) for the period**	**Comprehensive income**
Heungkuk Fire&Marine Insurance Co., Ltd.[1]	₩10,712,409	₩10,093,225	₩619,184	₩2,157,586	₩60,898	₩71,350
Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	21,291	5	21,286	2,610	2,572	2,572
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	50,794	409	50,385	1,163	751	751
Darby Hana BTL Special Asset Trust Fund II	48,901	28	48,873	1,149	998	998
Darby Hana Renewable Energy Special Asset Trust Fund	15,688	11	15,677	450	426	426
Heungkuk Global Private Placement Special Asset Investment Trust No.1	53,295	3,182	50,113	1,730	1,599	1,599
Heungkuk Dollar Balanced 40 Securities Feeder Investment Trust[Balanced Fund]	5,295	5	5,290	295	290	290
HANGANG PAJUYANGJU BTL FUND(SOC)	36,499	10	36,489	184	174	174
Heungkuk Highclass Private Bond Trust 1	4	46	(42)	—	—	—

(in millions of Korean won)	2016					
	Total assets	**Total liabilities**	**Total equity**	**Operating profit**	**Profit (loss) for the period**	**Comprehensive income**
Heungkuk Fire&Marine Insurance Co., Ltd.[1]	₩9,579,970	₩9,088,946	₩491,024	₩2,157,430	₩15,284	₩48,947
Heungkuk Lowvol Strategy Securities Feeder Investment Trust 1[Equity]C-i	18,605	5	18,600	1,103	247	247
Heungkuk Market Leaders Private Equity II	7,085	66	7,019	443	(82)	(82)
Heungkuk Infrastructure Private Special Asset Unit Trust 1[BTL]	52,572	490	52,082	1,193	918	918
Darby Hana BTL Special Asset Trust Fund II	51,153	29	51,124	1,205	1,047	1,047
Darby Hana Renewable Energy Special Asset Trust Fund	17,016	12	17,004	490	464	464
Heungkuk Global Private Placement Special Asset Investment Trust No.1	67,598	4,630	62,968	2,161	1,997	1,997
Heungkuk Highclass Private Bond Trust 1	4	45	(41)	—	—	—

[1] Refer to the separate financial statements of Heungkuk Fire&Marine Insurance Co., Ltd.

9. Loans Receivable

Loans receivables as at June 30, 2017 and December 31, 2016, consist of:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Principal of loans receivable	₩8,832,102	₩8,756,084
Unwinding of the discount	(111)	(84)
Deferred loan origination fees and costs	10,901	12,112
Provision for impairment	(28,094)	(27,695)
	₩8,814,798	₩8,740,417

Details of loans receivable that are impaired and past due as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Receivables not past due	₩8,599,290	₩8,387,504
Past due but not impaired	196,214	329,540
Impaired	36,598	39,040
Total	₩8,832,102	₩8,756,084

Movements in the provision for impairment of loans receivable for the six-month periods ended June 30, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Beginning balance	₩27,695	₩23,438
Provision (Reversal) for impaired receivables during the year	6,093	3,727
Reversal of impaired receivables	837	1,089
Receivables written off during the year	(6,339)	(3,437)
Unwinding	(192)	(414)
	₩28,094	₩24,403

10. Derivative Financial Instruments and Hedge Accounting

Details of derivative instruments as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017			
	Trading purpose		Hedging purpose	
	Assets	Liabilities	Assets	Liabilities
Currency forwards	₩ —	₩—	₩14,554	₩ 5,156
Currency swaps	—	—	45,630	88,533
Interest rate options etc.	1,331	—	908	—
Stock index options etc.	7,031	—	—	—
Credit options	11,334	—	—	—
Derivative linked securities etc.	1,199	—	—	—
	₩20,895	₩—	₩61,092	₩93,689

(in millions of Korean won)	December 31, 2016			
	Trading purpose		Hedging purpose	
	Assets	Liabilities	Assets	Liabilities
Currency forwards	₩ —	₩—	₩ 930	₩ 29,147
Currency swaps	41	—	5,637	219,054
Interest rate options etc.	1,526	—	1,163	—
Stock index options etc.	5,368	—	—	—
Credit options	7,280	864	—	—
Derivative linked securities etc.	1,683	—	—	—
	₩15,898	₩864	₩7,730	₩248,201

Details of gains and losses from derivative instruments for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Trading purpose	Hedging purpose	Trading purpose	Hedging purpose
Currency forwards	₩ —	₩ 63,634	₩ 250	₩17,607
Currency swaps	—	206,362	(11)	20,834
Interest rate options etc.	(476)	162	2,830	457
Stock index options etc.	4,263	—	(1,798)	—
Credit options	4,919	—	986	—
Derivative linked securities etc.	(485)	—	(1,310)	—
	₩8,221	₩270,158	₩ 947	₩38,898

Gains or losses on valuation of derivatives financial instruments for hedge accounting recognized in accumulated other comprehensive income for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Beginning balance	Profit or loss	Valuation	Ending balance
Gains(losses) on valuation of derivatives financial instruments for hedge accounting	₩27,837	₩(4,438)	₩(7,866)	₩15,533
Effect of tax	(6,843)	1,061	2,084	(3,698)
	₩ 20,994	₩ (3,377)	₩ (5,782)	₩ 11,835

(in millions of Korean won)	2016			
	Beginning balance	Profit or loss	Valuation	Ending balance
Gains(losses) on valuation of derivatives financial instruments for hedge accounting	₩ 7,001	₩(1,238)	₩1,213	₩ 6,976
Effect of tax	(1,527)	295	(314)	(1,546)
	₩ 5,474	₩ (943)	₩ 899	₩ 5,430

Securities provided as collaterals in relation to the derivatives as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won and thousands of USD)

Presentee	Bond type		June 30, 2017	December 31, 2016
Kookmin Bank and others	Government and public bonds and others	KRW	₩926,918	₩891,418
Morgan Stanley and others	KP(Woori Bank) and others	USD	35,000	35,000

11. Property and Equipment, Investment Property and Intangible Assets

Details of property and equipment, investment properties and intangible assets as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017				
	Acquisition cost	**Revaluation**	**Accumulated depreciation**	**Accumulated impairment loss**	**Book amount**
Property and equipment					
Land	₩187,191	₩63,183	₩ —	₩ —	₩250,374
Buildings	97,847	—	(31,757)	—	66,090
Construction in progress	1,228	—	—	—	1,228
Vehicles	208	—	(208)	—	—
Equipment	109,260	—	(96,952)	—	12,308
Others	2,071	—	—	—	2,071
Structures in leased office	6,273	—	(4,246)	—	2,027
	404,078	63,183	(133,163)	—	334,098
Investment property					
Land	486,745	—	—	(2,914)	483,831
Buildings	262,964	—	(73,200)	—	189,764
	749,709	—	(73,200)	(2,914)	673,595
Intangible assets					
Goodwill	81,187	—	—	—	81,187
Software	89,778	—	(72,907)	—	16,871
Research and development (R&D) cost	15,846	—	(5,310)	—	10,536
Others	32,014	—	(20,712)	(1,112)	10,190
	₩218,825	₩ —	₩ (98,929)	₩(1,112)	₩118,784

(in millions of Korean won)	December 31, 2016			
	Acquisition cost	**Accumulated depreciation**	**Accumulated Impairment loss**	**Book amount**
Property and equipment				
Land	₩221,101	₩ —	₩ —	₩221,101
Buildings	99,188	(33,055)	—	66,133
Construction in progress	10,910	—	—	10,910
Vehicles	208	(192)	—	16
Equipment	107,067	(92,642)	—	14,425
Others	1,656	—	—	1,656
Structures in leased office	7,263	(4,637)	—	2,626
	447,393	(130,526)	—	316,867
Investment property				
Land	452,835	—	—	452,835
Buildings	242,066	(67,474)	—	174,592
	694,901	(67,474)	—	627,427
Intangible assets				
Goodwill	81,187	—	—	81,187
Software	86,970	(68,469)	—	18,501
Research and development (R&D) cost	10,175	(3,809)	—	6,366
Others	31,306	(18,758)	(1,112)	11,436
	₩209,638	₩ (91,036)	₩(1,112)	₩117,490

Changes in property and equipment, investment properties and intangible assets for the six-month periods ended June 30, 2017 and 2016, are summarized as follows:

(in millions of Korean won)	2017								
	Beginning balance	**Acquisition**	**Disposal**	**Transfer**	**Depreciation**	**Revaluation**	**Others**	**Impairment**	**Ending balance**
Property and equipment									
Land	₩221,101	₩ —	₩ —	₩(33,910)	₩ —	₩63,183	₩—	₩ —	₩250,374
Buildings	66,133	29	—	1,222	(1,294)	—	—	—	66,090
Construction in progress	10,910	9,706	—	(19,387)	—	—	—	—	1,229
Vehicles	16	—	—	—	(16)	—	—	—	—
Equipment	14,425	2,290	—	—	(4,408)	—	—	—	12,307
Others	1,656	415	—	—	—	—	—	—	2,071
Structures in leased office	2,626	421	(409)	—	(600)	—	(11)	—	2,027
	316,867	12,861	(409)	(52,075)	(6,318)	63,183	(11)	—	334,098
Investment property									
Land	452,835	—	—	33,910	—	—	—	(2,914)	483,831
Buildings	174,592	140	—	18,165	(3,133)	—	—	—	189,764
	627,427	140	—	52,075	(3,133)	—	—	(2,914)	673,595
Intangible assets									
Goodwill	81,187	—	—	—	—	—	—	—	81,187
Software	18,502	2,808	—	—	(4,439)	—	—	—	16,871
Research and development (R&D) cost	6,365	5,672	—	—	(1,501)	—	—	—	10,536
Others	11,436	268	—	—	(1,514)	—	—	—	10,190
	₩117,490	₩ 8,748	₩ —	₩ —	₩(7,454)	₩ —	₩—	₩ —	₩118,784

(in millions of Korean won)	2016						
	Beginning balance	**Acquisition**	**Disposal**	**Transfer**	**Depreciation**	**Others**	**Ending balance**
Property and equipment							
Land	₩226,670	₩ —	₩ —	₩ 275	₩ —	₩—	₩226,945
Buildings	68,803	24	—	(67)	(1,105)	—	67,655
Construction in progress	2,541	4,229	—	—	—	—	6,770
Vehicles	34	—	—	—	(12)	—	22
Equipment	15,695	4,064	—	—	(4,342)	—	15,417
Others	936	720	—	—	—	—	1,656
Structures in leased office	3,067	990	(165)	135	(895)	(7)	3,125
	317,746	10,027	(165)	343	(6,354)	(7)	321,590
Investment property							
Land	447,334	—	—	(276)	—	—	447,058
Buildings	178,861	—	—	68	(2,822)	—	176,107
	626,195	—	—	(208)	(2,822)	—	623,165
Intangible assets							
Goodwill	81,187	—	—	—	—	—	81,187
Software	20,289	659	—	779	(3,928)	—	17,799
Research and development (R&D) cost	5,351	2,548	—	—	(936)	—	6,963
Others	14,328	—	(61)	—	(1,493)	—	12,774
	₩121,155	₩ 3,207	₩ (61)	₩ 779	₩(6,357)	₩—	₩118,723

Appraised value of land of investment properties as at June 30, 2017 is ₩638,812 million. Rental income and expenses related to investment properties for the six-month periods ended June 30, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Rental income	₩14,960	₩14,728
Operating expense(related to investment properties recognizing rental income)	9,054	9,384
Operating expense(related to investment properties not recognizing rental income)	1,927	1,410

At the end of the current period, with regard to the Group's land and buildings with respect to the leasehold deposit, the mortgage and leasehold rights were set at ₩11,793 million and ₩16,707 million, respectively.

The fair value of land was determined by an independent external appraiser. The book amount of investment properties equals to the appraiser's report.

Book amount of land using cost model as at June 30, 2017, are as follows:

(in millions of Korean won)	**Revaluation model**	**Cost model**
Land	₩250,374	₩187,191

Gains or losses on revaluation of land recognized in comprehensive are as follows:

(in millions of Korean won)	**Amount**
Revaluation gain(Other comprehensive)	₩64,938
Revaluation loss(Profit or loss)	(1,755)

The fair value of land is classified as Level 3 on the fair value hierarchy.

(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	—	—	250,374	250,374

Valuation method and inputs of land are summarized as follows:

Method	**Inputs**	**Relation to fair value**
Valuation method based on publicly announced land price	Modify time	Rate of change in price of the land rises(falls), fair value increases(decreases)
	Regional factor	When regional factor increases(decreases), fair value increases(decreases)
	Individual factor	When a correction value including condition of a lot increases(decreases), fair value increases(decreases)
	Other factor	When correction value including land price increases(decreases), fair value increases(decreases)

12. Other Financial Assets

Details of other financial assets as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Reinsurance assets	₩249,425	₩249,423
Insurance receivables	192,901	253,769
Accounts receivable	27,861	13,735
Accrued income	220,759	226,208
Guarantee deposits provided	85,397	93,486
	₩776,343	₩836,621

Movements in the provision for impairment of other financial assets for the six-month periods ended June 30, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Beginning balance	₩26,983	₩25,487
Provision (Reversal) for impaired receivables during the period	1,016	589
Receivables written off during the period	(9,396)	(1,048)
	₩18,603	₩25,028

13. Other Assets

Details of other assets as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Deferred policy acquisition costs	₩1,292,245	₩1,365,893
Prepaid expenses	10,392	2,710
Advance payments	9,210	9,589
Compensation receivables	2,902	3,545
	₩1,314,749	₩1,381,737

Changes in deferred policy acquisition costs for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Individual insurance					
	Annuity	Whole life, Term life	Endowment	Group insurance	Indemnity insurance	Total
Beginning balance	₩ 45,516	₩ 576,631	₩ 78,954	₩317	₩ 664,476	₩1,365,894
Increase	6,750	99,796	2,234	22	94,267	203,069
Decrease	(12,266)	(102,073)	(21,266)	(97)	(141,016)	(276,718)
Ending balance	₩ 40,000	₩ 574,354	₩ 59,922	₩242	₩ 617,727	₩1,292,245

(in millions of Korean won)	2016					
	Individual insurance					
	Annuity	Whole life, Term life	Endowment	Group insurance	Indemnity insurance	Total
Beginning balance	₩ 67,154	₩ 517,125	₩109,560	₩412	₩ 741,117	₩1,435,368
Increase	7,774	146,615	14,080	69	124,176	292,714
Decrease	(18,432)	(100,131)	(27,699)	(91)	(164,112)	(310,465)
Ending balance	₩ 56,496	₩ 563,609	₩ 95,941	₩390	₩ 701,181	₩1,417,617

14. Insurance Contract Liabilities

Details of insurance contract liabilities as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Premium reserve	₩29,572,635	₩28,135,338
Reserve for outstanding claims	913,718	889,536
Reserve for unearned premium	175,811	194,863
Reserve for minimum guaranteed benefit	87,763	79,859
Reserves for policyholders' dividends	77,454	78,018
Reserve for policyholders' profit dividends	20,128	12,937
Reserve for losses on dividend insurance	13,371	10,181
	₩30,860,880	₩29,400,732

15. Policyholders' Equity Adjustment

Details of policyholders' equity adjustments as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Changes in the fair value of available-for-sale financial assets	₩ 677	₩ 4,123
Changes in the fair value of held-to-maturity financial assets	51,708	58,142
Gain on revaluation of property and equipment[1]	6,616	4,952
	₩59,001	₩67,217

[1] By using the deemed cost of adoption date of Korean IFRS, gain (loss) on revaluation of property and equipment is allocated by the policyholder's equity ratio.

16. Borrowings

Details of borrowings as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Private placement bonds	₩301,071	₩286,141
Public offering bonds	199,476	199,441
	₩500,547	₩485,582

Details of Group's issuance of bonds as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	Date of issuance	Expiration date	Interest rate	June 30, 2017	December 31, 2016	Method of repayment
Subordinated unguaranteed private placement bonds	2016.12.28	2022.07.28	4.34%	₩ 80,000	₩ 80,000	Bullet repayment
	2017.03.31	2023.03.31	4.78%	14,971	—	Bullet repayment
	2013.09.30	2019.07.30	5.50%	31,100	31,141	Bullet repayment
	2014.09.29	2020.07.29	5.50%	40,000	40,000	Bullet repayment
	2014.09.29	2021.09.29	5.70%	20,000	20,000	Bullet repayment
	2015.06.30	2023.04.30	5.40%	40,000	40,000	Bullet repayment
	2015.06.30	2023.04.30	5.40%	10,000	10,000	Bullet repayment
	2016.09.29	2022.01.29	CD91 + 256bp	45,000	45,000	Bullet repayment
	2016.09.29	2024.01.29	4.60%	20,000	20,000	Bullet repayment
				301,071	286,141	
Subordinated unguaranteed public offering bonds	2013.10.10	2023.10.10	5.00%	199,476	199,441	Bullet repayment
				₩500,547	₩485,582	

There is no asset pledged as collateral and no guarantee provided regarding the above borrowings.

17. Separate Accounts

Separate account assets and liabilities as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	**June 30, 2017**	**December 31, 2016**
Separate account assets before netting	₩3,017,745	₩2,999,804
Separate account payables before netting	(17,105)	(332,528)
Separate account assets after netting	3,000,640	2,667,276
Separate account liabilities before netting	3,009,066	2,991,731
Separate account receivables before netting	(18,806)	(18,396)
Separate account liabilities after netting	2,990,260	2,973,335
Other comprehensive income of separate accounts	₩ 8,679	₩ 8,073

Statements of financial position of separate accounts at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	**June 30, 2017**	**December 31, 2016**
Assets		
Cash and deposits	₩ 71,026	₩ 64,216
Marketable securities	2,709,820	2,371,229
Loans	190,727	204,751
Other assets	29,067	27,080
Other receivables from general account	17,105	332,528
	₩3,017,745	₩2,999,804
Liabilities		
Other liabilities	₩ 41,753	₩ 32,894
Other payables from general account	18,806	18,396
Insurance contract liabilities	1,354,959	1,324,970
Investment contract liabilities	1,593,548	1,615,471
	3,009,066	2,991,731
Accumulated other comprehensive income	8,679	8,073
Liabilities and accumulated other comprehensive income	₩3,017,745	₩2,999,804

Statements of profit or loss of separate accounts for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Guaranteed investment contracts	Investment-linked fund	Guaranteed investment contracts	Investment-linked fund
Revenue:				
Premium income	₩ —	₩ 94,454	₩ —	₩ 96,444
Interest income	21,015	7,075	18,668	6,997
Dividend income	6,062	2,494	3,716	1,909
Gain on trading and valuation of securities	994	130,435	2,724	65,380
Gain on trading and valuation of derivatives	21,667	14,506	7,498	14,148
Gain on foreign currency transaction	2	1,944	25	751
Other income	688	69,355	1,250	86,457
	₩50,428	₩320,263	₩33,881	₩272,086
Expenses:				
Change in reserves for insurance contracts	₩17,094	₩ 30,765	₩16,123	₩ (54,193)
Insurance claims paid	167	119,893	753	114,556
Minimum guarantee fee	—	3,346	—	2,747
Separate account commission	11,530	55,845	9,765	47,157
Commission expense	9	1,735	7	2,018
Loss on trading and valuation of securities	167	24,489	165	59,275
Loss on trading and valuation of derivatives	2,519	10,579	1,415	13,477
Loss on foreign currency transaction	1,921	2,171	15	505
Other expense	17,021	71,440	5,638	86,544
	₩50,428	₩320,263	₩33,881	₩272,086

Revenue and expenses on performance-based trust accounts (variable insurance contract) are not reflected in the general account consolidated statements of comprehensive income. However, revenue and expenses on trust accounts guaranteeing the repayment of principal and interests are accounted for as separate account revenue and expenses in the general account in the consolidated statements of comprehensive income.

Details of restricted separate accounts as at June 30, 2017, are as follows:

(in millions of Korean won)	June 30, 2017
Indemnity Index Balanced Fund	₩ 238
Indemnity Index Growth Balanced Fund	38
Variable annuity II Index Balanced Fund	475
Variable annuity II Index Growth Balanced Fund	1,022
Variable annuity II Growth Balanced Fund	697
Variable annuity II Index Balanced Fund II	238
Variable annuity II Index Growth Balanced Fund II	475
Variable annuity II Invest Asia Balanced Fund	1,792
Retirement Pension Index Balanced Fund	69
Variable universal Equity Fund	307
	₩5,351

Above restricted separate accounts are provided as substitute securities for future option transaction deposits.

In accordance with the regulations under the Capital Markets Integration Act, the Group differentiates trust assets from existing assets, and recognizes trust commission as operating income when receiving trust commission. As at June 30, 2017, the amount of the trust fund under the contract with the Group is ₩2,810,003 million.

18. Other Financial Liabilities

Details of other financial liabilities as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017	December 31, 2016
Insurance claims payables	₩185,218	₩194,563
Other payables	50,486	47,046
Accrued expenses	54,411	61,189
Withholdings	6,890	6,666
Leasehold deposit received	46,913	44,308
Present value discount	(1,221)	(1,294)
	₩342,697	₩352,478

19. Provisions

Changes in provisions for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Beginning balance	Increase	Decrease	Ending balance
Provision for restoration	₩ 8,050	₩518	₩(1,590)	₩6,978
Provision for debt guarantee	2,901	—	(542)	2,359
	₩10,951	₩518	₩(2,132)	₩9,337

(in millions of Korean won)	2016			
	Beginning balance	Increase	Decrease	Ending balance
Provision for restoration	₩7,411	₩1,236	₩(664)	₩ 7,983
Provision for debt guarantee	2,357	269	(8)	2,618
	₩9,768	₩1,505	₩(672)	₩10,601

20. Other Liabilities

Details of other liabilities as at June 30, 2017 and December 31, 2016, are as follows:

(in millions of Korean won)	June 30, 2017	December 31, 2016
Advance received	₩ 3,675	₩ 3,445
Unearned revenues	8,095	7,810
Premium received in advance	111,152	246,404
Dormant insurance debt[1]	13,827	15,609
Accidental suicide death debt[2]	—	8,990
Provision for incomplete sale[3]	2,204	2,239
Others	83,529	67,975
	₩222,482	₩352,472

[1] The Group makes provisions for claims to be paid on dormant insurance policies.
[2] As at December 31, 2016, the Group estimated the expected amount to be paid related to the claim for suicide death. In 2017, it is reclassified to insurance contract liabilities.
[3] The Group recognized provisions for claims to be paid on incomplete sale of cardssurance. If the possibility of payment changes, it can be reversed.

21. Share Capital, Hybrid Bond and Additional Paid-in Capital

Details of share capital as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won except for par value)	June 30, 2017	December 31, 2016
Number of shares authorized	50,000,000	50,000,000
Par value	₩ 5,000	₩ 5,000
The number of ordinary shares issued	13,583,369	13,583,369
Share capital	₩ 67,917	₩ 67,917

Details of hybrid bond as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won except for par value)	Date of issuance	Expiration date	Interest rate	June 30, 2017	December 31, 2016
KRW hybrid bond	2017.03.31	2047.03.31	4.93%	₩35,000	₩—
Issuance cost				(70)	—
				₩34,930	₩—

Early redemption can be made from five years after issuance of hybrid bonds. After 10 years from the issuance date, the interest rate will be adjusted only once. It is possible to extend the maturity by 30 years at the expiration date.

Details of additional paid-in capital as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Share premium	₩80,429	₩80,429
Other capital surplus	18,019	17,990
	₩98,448	₩98,419

22. Other Components of Equity

Details of other components of equity as at June 30, 2017 and December 31, 2016, are as follows:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Gain(loss) on valuation of available-for-sale financial assets	₩ 22,954	₩ 36,168
Gain(loss) on valuation of held-to-maturity financial assets	291,538	303,348
Gain (loss) on valuation of derivatives	11,835	20,994
Accumulated other comprehensive income of separate accounts	8,679	8,073
Gain on revaluation of property and equipment[1]	92,828	52,962
Remeasurements of net defined benefit liabilities	520	595
	₩ 428,354	₩ 422,140

[1] Gain (loss) on revaluation of property and equipment is calculated after allocating policyholder's equity adjustment by using deemed cost of adoption date of Korean IFRS.

23. Retained Earnings

Retained earnings as at June 30, 2017 and December 31, 2016, consist of:

(In millions of Korean won)	June 30, 2017	December 31, 2016
Legal reserve[1]	₩ 5,277	₩ 5,277
Reserve for the rationalization of enterprises	17,501	17,501
Catastrophe reserves	4,633	2,322
Reserve for credit losses	58,447	36,340
Retained earnings before appropriation	835,182	764,991
	₩921,040	₩826,431

[1] The Commercial Code of the Republic of Korea requires the Parent Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit, if any.

The Group is required to appropriate, as a reserve for credit losses, the difference between the allowances of credit losses in accordance with Korean IFRS and the Supervisory Regulations on Insurance Business if the allowance under Korean IFRS is less than that under the Supervisory Regulations on Insurance Business.

Adjusted profit (loss) after provision of reserve for credit losses for the six-month periods ended June 30, 2017 and 2016, is as follows:

(In millions of Korean won except per share amounts)	2017	2016
Profit for the period	₩94,614	₩33,297
Dividend of hybrid bond	(5)	—
Provision (Reversal) of reserve for credit losses	(1,015)	(308)
Adjusted profit for the period after provision (Reversal)[1]	95,624	33,605
Adjusted earnings per share after provision (Reversal)[1]	₩ 7,040	₩ 2,474

[1] Adjusted profit and earnings per share is calculated on the assumption that provision of reserves for credit losses is the amount before allocating policyholder's equity adjustment and deferred income tax.

24. Net Gains or Losses by Category of Financial Instruments

Net gains on each category of financial instruments for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Interest income	**Dividends income**	**Gain on trading and valuation**	**Gain on foreign currency translation and transaction**	**Total**
Cash and cash equivalents, Deposits	₩ 7,658	₩ —	₩ —	₩ 103	₩ 7,761
Loans and receivables					
Loans	195,988	—	4,934	2	200,924
Receivables	—	—	—	1,100	1,100
Securities					
Financial assets at fair value through profit or loss	5,566	2,209	9,823	2	17,600
Available-for-sale financial assets	117,545	72,547	44,267	654	235,013
Held-to-maturity financial assets	144,285	—	—	23,192	167,477
Derivative instruments	—	—	322,608	—	322,608
Other financial assets	1,741	—	—	—	1,741
	₩472,783	₩74,756	₩381,632	₩25,053	₩954,224

(in millions of Korean won)	2016				
	Interest income	**Dividends income**	**Gain on trading and valuation**	**Gain on foreign currency translation and transaction**	**Total**
Cash and cash equivalents, Deposits	₩ 20,466	₩ —	₩ —	₩ 596	₩ 21,062
Loans and receivables					
Loans	189,302	—	9,133	2,273	200,708
Receivables	—	—	—	256	256
Securities					
Financial assets at fair value through profit or loss	15,203	2,033	12,918	—	30,154
Available-for-sale financial assets	154,688	48,103	19,871	9,089	231,751
Held-to-maturity financial assets	77,023	—	72	—	77,095
Derivative instruments	—	—	64,849	—	64,849
Other financial assets	373	—	—	—	373
	₩457,055	₩50,136	₩106,843	₩12,214	₩626,248

Net losses on each category of financial instruments for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Interest expense	**Bad debt expense**	**Loss on trading and valuation**	**Impairment loss**	**Loss on foreign currency translation and transaction**	**Total**
Cash and cash equivalents, Deposits	₩ —	₩ —	₩ —	₩ —	₩ 8,601	₩ 8,601
Loans and receivables						
Loans	—	6,093	—	—	16,379	22,472
Receivables	—	814	—	—	3,076	3,890
Securities						
Financial assets at fair value through profit or loss	—	—	5,259	—	6,236	11,495
Available-for-sale financial assets	—	—	1,018	1,258	163,017	165,293
Held-to-maturity financial assets	—	—	—	—	98,856	98,856
Derivative instruments	—	—	44,229	—	—	44,229
Borrowings	12,104	—	—	—	—	12,104
Other financial liabilities	5,147	—	—	—	—	5,147
	₩17,251	₩6,907	₩50,506	₩1,258	₩296,165	₩372,087

(in millions of Korean won)	2016					
	Interest expense	**Bad debt expense**	**Loss on trading and valuation**	**Impairment loss**	**Loss on foreign currency translation and transaction**	**Total**
Cash and cash equivalents, Deposits	₩ —	₩ —	₩ —	₩—	₩ 3,785	₩ 3,785
Loans and receivables						
Loans	—	3,379	25	—	1,471	4,875
Receivables	—	646	—	—	1,070	1,716
Securities						
Financial assets at fair value through profit or loss	—	—	10,345	—	856	11,201
Available-for-sale financial assets	—	—	4,167	—	40,387	44,554
Held-to-maturity financial assets	—	—	20	—	—	20
Derivative instruments	—	—	25,003	—	—	25,003
Borrowings	12,601	—	—	—	—	12,601
Other financial liabilities	3,936	—	—	—	—	3,936
	₩16,537	₩4,025	₩39,560	₩—	₩47,569	₩107,691

25. Insurance Premium Income

Insurance premium income for the six-month periods ended June 30, 2017 and 2016, is as follows:

(in millions of Korean won)		2017		2016	
Life Insurance		Three months	Six months	Three months	Six months
Individual insurance	Annuity	₩ 99,606	₩ 218,264	₩ 148,461	₩ 302,075
	Whole life, Term life	447,718	897,540	475,101	929,857
	Endowment insurance	451,966	951,541	565,861	1,146,730
Group insurance		1,122	2,300	1,310	2,649
		1,000,412	2,069,645	1,190,733	2,381,311
Non-life Insurance					
General		41,458	78,863	48,197	83,356
Long-term		716,508	1,440,205	734,041	1,471,265
Automobile		40,030	85,546	65,108	125,898
		797,996	1,604,614	847,346	1,680,519
		₩1,798,408	₩3,674,259	₩2,038,079	₩4,061,830

26. Reinsurance Income and Expenses

Reinsurance income and expenses for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Reinsurance premium recovered(paid)	**Reinsurance claims recovered(paid)**	**Reinsurance commission income**	**Changes in reinsurance assets**	**Total**
Three months					
Reinsurance income	₩ —	₩146,507	₩ 7,391	₩(4,304)	₩149,594
Reinsurance expense	165,674	—	—	124	165,798
Six months					
Reinsurance income	—	298,590	14,392	—	312,982
Reinsurance expense	318,000	—	—	124	318,124

(in millions of Korean won)	2016				
	Reinsurance premium recovered(paid)	**Reinsurance claims recovered(paid)**	**Reinsurance commission income**	**Changes in reinsurance assets**	**Total**
Three months					
Reinsurance income	₩ —	₩159,030	₩ 7,471	₩11,241	₩177,742
Reinsurance expense	168,132	—	—	—	168,132
Six months					
Reinsurance income	—	296,499	12,667	19,785	328,951
Reinsurance expense	307,770	—	—	—	307,770

27. Insurance Claims Paid

Insurance claims paid for the six-month periods ended June 30, 2017 and 2016, are as follows:

(In millions of Korean won)	2017		2016	
	Three months	Six months	Three months	Six months
Insurance expenses	₩ 337,692	₩ 708,462	₩342,746	₩ 699,284
Refund expenses	682,415	1,395,298	634,255	1,288,276
Dividend expenses	2,447	5,033	2,678	5,456
	₩1,022,554	₩2,108,793	₩979,679	₩1,993,016

28. Business Expenses

Business expenses for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Three months	Six months	Three months	Six months
Acquisition costs:				
Agent commissions	₩ 61,723	₩ 134,539	₩ 82,549	₩ 170,053
Sales office operations	4,886	9,883	7,663	14,601
Sales promotional expenses	13,597	25,840	16,732	31,503
Other acquisition costs	64,883	126,664	94,937	203,766
	145,089	296,926	201,881	419,923
Deferred policy acquisition costs	(101,054)	(203,069)	(139,515)	(292,713)
	44,035	93,857	62,366	127,210
Maintenance expenses:				
Salaries and bonus	21,591	42,810	20,282	40,590
Post-employment benefits	3,572	5,432	1,822	3,601
Employee benefits	2,416	4,457	3,441	7,423
Rental expenses	4,233	8,962	4,882	9,532
IT expense	5,495	10,564	5,447	10,699
Communication expenses	1,757	3,633	1,795	3,670
Others	46,910	111,169	65,841	137,388
	85,974	187,027	103,510	212,903
	₩ 130,009	₩ 280,884	₩ 165,876	₩ 340,113

29. Property Administration Expenses

Property administration expenses for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Three months	Six months	Three months	Six months
Salaries and bonus	₩1,610	₩ 3,308	₩ 1,816	₩ 3,562
Employee benefits	137	263	177	319
Communication expenses	95	198	106	180
Repair and maintenance expenses	144	221	202	639
Commission	5,201	11,054	5,342	10,633
Others	2,510	5,775	2,512	5,953
	₩9,697	₩20,819	₩10,155	₩21,286

30. Claim Handling Costs

Claim handling costs for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		2016	
	Three months	Six months	Three months	Six months
Salaries	₩ 5,026	₩ 9,491	₩ 4,522	₩ 9,023
Post-employment benefits	424	799	438	869
Employee benefits	502	941	590	1,165
Miscellaneous wages	81	119	55	87
Travel and transportation expenses	221	445	260	526
Communication expense	467	962	520	1,138
Utility expense	13	35	10	27
Taxes and dues	184	362	195	394
Supplies expenses	9	19	18	39
Meeting costs	8	14	12	29
Rent expense	402	801	411	820
Vehicle management costs	14	24	9	16
Insurance premium	83	137	90	152
Commission expense	10,305	20,829	9,672	19,212
IT expense	(872)	3	833	1,638
Depreciation expense	1,535	1,768	161	305
Others	489	489	1	1
Recovery of claim handling costs	(3,894)	(7,828)	(3,843)	(7,134)
	₩14,997	₩29,410	₩13,954	₩28,307

31. Income Tax Expense

Income tax expense is recognized based on the best estimate of weighted average annual income tax rate expected for the full financial year. The estimated average annual income tax rate used for the year ending December 31, 2017, is 21.35%.

32. Related Party Transactions

Details of the related parties of the Group as at June 30, 2017 are as follows:

Description	Name of entity	
Ultimate controlling party	Lee Ho Jin	
Controlling stockholder	Lee Won Jun	Daehan Synthetic Fiber Co., Ltd.
	ILJU Academy and Culture Foundation	Lee Dong Jun
	Lee Tae Jun	Korea Book Promotion Co., Ltd.
	Lee Jung Ah	Lee Sung Ah
Others[1]	Taekwang Industrial Co., Ltd.	Donglim Engineering & Construction Co., Ltd.
	Goryo Savings Bank Co., Ltd.	Yegaram Savings Bank Co., Ltd.
	Ilju Educational Foundation	Es-teem Co., Ltd.
	Sehwa Art and Culture Foundation	Mervin Co., Ltd.
	Tcast Co., Ltd.	Daishin-Heungkuk 1 PEF
	Seohan Moolsan Co., Ltd.	Heungkuk Asset Management Co., Ltd.
	Segwang Fashion Co., Ltd.	Heungkuk Securities Co., Ltd.
	Taekwang Synthetic Fiber (Changshu) Limited	T-broad Dongdaemun Broadcasting Co., Ltd.
	Seohanzhigwan (Changshu) Limited	T-broad Nowon Broadcasting Co., Ltd.
	Taekwang Industrial Co., Ltd. Gaesong	Shopping & T Co., Ltd.
	Worri Home Shopping Co., Ltd.	KCT Co., Ltd.
	Taekwang Tourist Development Co., Ltd.	Champvision Co., Ltd.
	Tsis Co., Ltd.	Cable TV VOD Co., Ltd.
	T-broad Co., Ltd.	Communix Co., Ltd.
	KDMC Co., Ltd.	IMM Private Equity, Inc.
	E-channel Co., Ltd.	J&T 1 PEF

[1] Although these companies are not the related parties of the Group in accordance with Korean IFRS 1024, their transactions are disclosed because they are companies that are affiliated to an identical large business group of Taekwang Industrial Co., Ltd. in accordance with the Monopoly Regulation and Fair Trade Act.

Significant transactions between the Group and related parties for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017		
	Revenue		
Name of entity	**Premium income**	**Rental income**	**Other income**
Taekwang Industrial Co., Ltd.	₩6,366	₩ 244	₩ 52
Tsis Co., Ltd.	50	402	16
Korea Book Promotion Co., Ltd.	—	63	5
Donglim Engineering & Construction Co., Ltd.	1	—	1
Others	158	3,822	74
	₩6,575	₩4,531	₩148

(in millions of Korean won)

	2017			
	Expense			
Name of entity	**Premium expense**	**Commission expense**	**Interest expense[1]**	**Other expense**
Taekwang Industrial Co., Ltd.	₩ 19	₩ —	₩ —	₩ 143
Tsis Co., Ltd.	300	37,594	—	12,330
Korea Book Promotion Co., Ltd.	—	—	—	5,607
Donglim Engineering & Construction Co., Ltd.	—	—	—	10,745
Others	180	2,769	1,996	3,761
	₩499	₩40,363	₩1,996	₩32,586

(in millions of Korean won)

	2016		
	Revenue		
Name of entity	**Premium income**	**Rental income**	**Other income**
Taekwang Industrial Co., Ltd.	₩6,751	₩ 218	₩ 15
Heungkuk Asset Management Co., Ltd.	8	455	2
T-broad Co., Ltd.	(13)	1,306	19
KCT Co., Ltd.	21	73	1
Tsis Co., Ltd.	52	288	29
Korea Book Promotion Co., Ltd.	—	62	6
Donglim Engineering & Construction Co., Ltd.	7	—	1
Sehwa Art and Culture Foundation	9	287	—
Worri Home Shopping Co., Ltd.	—	—	—
Others	56	1,129	40
	₩6,891	₩3,818	₩113

(in millions of Korean won)	2016			
	Expense			
Name of entity	Premium expense	Commission expense	Interest Expense [1]	Other expense
Taekwang Industrial Co., Ltd.	₩ 29	₩ —	₩ —	₩ 130
Heungkuk Asset Management Co., Ltd.	—	1,081	—	371
T-broad Co., Ltd.	71	1	—	161
KCT Co., Ltd.	11	—	—	2,546
Tsis Co., Ltd.	38	36,516	—	14,983
Korea Book Promotion Co., Ltd.	12	3	—	6,240
Donglim Engineering & Construction Co., Ltd.	—	—	—	7,177
Sehwa Art and Culture Foundation	—	—	1,080	—
Worri Home Shopping Co., Ltd.	—	2,009	—	1,926
Others	59	3	270	1,263
	₩220	₩39,613	₩1,350	₩34,797

1 Interest income and expense (dividend) of hybrid bonds, which are classified as capital are included, and interest expenses are based on its nominal interest rate.

Except the transactions mentioned above, the Group entered into insurance and policy loan contracts with its employees according to standard trade terms.

Outstanding balances arising from sales/purchases of goods and services as at June 30, 2017 are as follows:

(in millions of Korean won)	2017		
	Receivables		
Name of entity	Guarantee deposit from contract[1]	Leasehold deposits	Other receivables
Taekwang Industrial Co., Ltd.	₩ —	₩ 5	₩ 10
T-broad Co., Ltd.	—	210	—
T-broad Dongdaemun Broadcasting Co., Ltd.	—	—	—
T-broad Nowon Broadcasting Co., Ltd.	—	—	—
KDMC Co., Ltd.	—	—	—
Tsis Co., Ltd.	53,200	—	323
Taekwang Tourist Development Co., Ltd.	7,260	—	66
ILJU Academy and Culture Foundation	—	—	—
Sehwa Art and Culture Foundation	—	—	—
Worri Home Shopping Co., Ltd.	—	—	—
Others	—	322	4
	₩60,460	₩537	₩403

(in millions of Korean won)	2017			
	Payables			
Name of entity	**Borrowing**	**Leasehold deposits received**	**Other payables**	**Premium reserve**
Taekwang Industrial Co., Ltd.	₩ —	₩ 262	₩ 6,213	₩ 77
T-broad Co., Ltd.	15,000	1,591	185	—
T-broad Dongdaemun Broadcasting Co., Ltd.	8,000	—	4	—
T-broad Nowon Broadcasting Co., Ltd.	7,000	—	1	—
KDMC Co., Ltd.	10,000	—	1	—
Tsis Co., Ltd.	—	1,249	8,063	—
Taekwang Tourist Development Co., Ltd.	—	451	191	—
ILJU Academy and Culture Foundation	10,000	116	1	—
Sehwa Art and Culture Foundation	70,000	375	20	—
Worri Home Shopping Co., Ltd.	—	—	107	12,610
Others	—	5,001	1,126	3,983
	₩120,000	₩9,045	₩15,912	₩16,670

(in millions of Korean won)	2016		
	Receivables		
Name of entity	**Guarantee deposit from contract[1]**	**Leasehold deposits**	**Other receivables**
Taekwang Industrial Co., Ltd.	₩ —	₩ 5	₩ 10
T-broad Co., Ltd.	—	210	—
Tsis Co., Ltd.	53,200	—	571
Taekwang Tourist Development Co., Ltd.	6,318	—	71
Korea Book Promotion Co., Ltd.	—	—	1
ILJU Academy and Culture Foundation	—	—	—
Sehwa Art and Culture Foundation	—	—	—
Worri Home Shopping Co., Ltd.	—	—	—
Others	—	322	10
	₩59,518	₩537	₩663

[1] Face value of deposit which will be repaid on the maturity date of membership.

(in millions of Korean won)	2016			
	Payables			
Name of entity	**Borrowing**	**Leasehold deposits received**	**Other payables**	**Premium reserve**
Taekwang Industrial Co., Ltd.	₩ —	₩ 250	₩ 3,232	₩ 76
T-broad Co., Ltd.	—	1,895	452	—
Tsis Co., Ltd.	—	584	9,230	—
Taekwang Tourist Development Co., Ltd.	—	267	227	—
Korea Book Promotion Co., Ltd.	—	1,964	721	—
ILJU Academy and Culture Foundation	10,000	71	—	—
Sehwa Art and Culture Foundation	60,000	747	49	—
Worri Home Shopping Co., Ltd.	—	—	40	13,838
Others	—	2,414	1,269	4,226
	₩70,000	₩8,192	₩15,220	₩18,140

Significant fund transactions between the Group and related parties for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
		Fund borrowing transaction		
Name of entity	**Beginning balance**	**Borrowing**	**Repayment**	**Ending balance**
Sehwa Art and Culture Foundation	₩60,000	₩10,000	₩—	₩ 70,000
ILJU Academy and Culture Foundation	10,000	—	—	10,000
T-broad Co., Ltd.	—	15,000	—	15,000
T-broad Dongdaemun Broadcasting Co., Ltd.	—	8,000	—	8,000
T-broad Nowon Broadcasting Co., Ltd.	—	7,000	—	7,000
KDMC Co., Ltd.	—	10,000	—	10,000
	₩70,000	₩50,000	₩—	₩120,000

(in millions of Korean won)	2016			
		Fund borrowing transaction		
Name of entity	**Beginning balance**	**Borrowing**	**Repayment**	**Ending balance**
Sehwa Art and Culture Foundation	₩40,000	₩—	₩—	₩40,000
ILJU Academy and Culture Foundation	10,000	—	—	10,000
	₩50,000	₩—	₩—	₩50,000

The compensation paid or payable to key management for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Salaries and bonus	₩3,631	₩2,646
Post-employment benefits	560	854
	₩4,191	₩3,500

Key management compensation includes payment for retired directors and non-executive directors.

During the year ended December 31, 2016, company paid ₩10,118 million for annual dividend.

33. Contingencies and Commitments

Pending litigations

As at June 30, 2017, the Group is involved in 787 litigations as a plaintiff with total claim amount of ₩17,734 million due to insurance claims. In addition, the Group is involved in 484 litigations as a defendant with total claim amounts of ₩32,699 million due to insurance claims.

Overdraft agreements with banks

As at June 30, 2017, the Group is in agreement with KEB Hana bank, Shinhan Bank and others daily bank overdraft (Total limit amount: ₩56 billion). In relation to this agreements, government and special bonds are pledged as collaterals(Face value: ₩60 billion).

Payment Guarantee

As at June 30, 2017, the Group is provided with ₩4,540 million of payment guarantee from Seoul Guarantee Insurance Co., Ltd. in relation to litigation deposits.

34. Cash Generated from Operations

Adjustments for income and expenses of cash flows from operating activities for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Adjustments for:		
<Addition of expense with no cash outflow>		
Interest expense	₩ 17,251	₩ 16,538
Income tax expense	32,375	(19,671)
Depreciation	1,458,862	1,956,759
Change in reserves for insurance contracts	642	533
Loss on compensation receivables	1,880	2,014
Post-employment benefits	276,717	310,464
Amortization of deferred policy acquisition costs	3,058	7,241
Loss on valuation of financial assets at fair value through profit or loss	1,018	4,167
Loss on disposal of available-for-sale financial assets	1,258	—
Loss on valuation of available-for-sale financial assets	—	20
Loss on disposal of investment in subsidiaries	87	—
Bad debt expense	6,093	3,379
Loss on foreign currency translation	271,868	42,493
Depreciation	9,451	9,177
Amortization	7,454	6,357
Revaluation loss on property and equipment	1,755	—
Impairment loss on investment properties	2,914	—
Loss on transaction and valuation of derivatives	44,229	25,003
Loss on disposal of property and equipment	11	7
Other expense	3,580	4,251
	2,140,503	2,368,732
<Deduction of income with no cash inflow>		
Interest income	(472,783)	(457,055)
Dividend income	(74,756)	(50,136)
Changes in Reinsurance assets	—	(19,785)
Gain on valuation of financial assets at fair value through profit or loss	(7,824)	(5,695)
Gain on disposal of available-for-sale financial assets	(44,267)	(19,871)
Gain on disposal of held-to-maturity financial assets	—	(72)
Gain on foreign currency translation	(24,247)	(4,917)
Gain on transaction and valuation of derivatives	(322,608)	(64,848)
Gain on disposal of property and equipment	(2)	—
Other income	(15,684)	(10,969)
	(962,171)	(633,348)
	₩1,178,332	₩1,735,384

Change in operating assets and liabilities for the six-month periods ended June 30, 2017 and 2016, is as follows:

(in millions of Korean won)	2017	2016
Increase in deposits	₩ 49,823	₩ 249,576
Decrease (increase) in financial assets at fair value through profit or loss	(225,414)	173,529
Decrease in loans	(95,982)	(163,972)
Increase in other financial assets	45,871	27,266
Decrease in other assets	(211,026)	(302,748)
Decrease in separate accounts assets	(332,759)	(268,343)
Decrease in defined benefit liabilities	(296)	(413)
Decrease in plan assets	231	351
Decrease in other financial liabilities	(18,690)	(47,131)
Decrease in other liabilities	(135,122)	(79,279)
Increase (decrease) in separate accounts liabilities	16,926	(10,990)
	₩(906,438)	₩(422,154)

Significant transactions not affecting cash flows for the six-month periods ended June 30, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Transfer from property and equipment to investment properties	₩(49,695)	₩ (659)
Transfer from prepaid expenses to intangible assets	547	779
Gain or loss on valuation of available-for-sale financial assets	(13,848)	217,862
Gain or loss on valuation of held-to-maturity financial assets	(14,607)	(10,157)
Gain or loss on valuation of derivatives for cash flow hedges	(10,020)	56
Changes in accumulated other comprehensive income of separate accounts	605	20,615
Revaluation surplus	48,107	641
Receivables written-off	6,339	3,437
Other financial assets written-off	9,396	1,048
Remeasurement of net defined benefit liabilities	(52)	22

35. Risk Management

The Group is exposed to risks such as market risk (foreign currency risk, fair-value interest rate risk, cash flow risk and price risk), credit risk and liquidity risk due to various business activities. Please refer to the annual consolidated financial statements of December 31, 2016 as the interim financial statements do not include all risk management because disclosure is not required in the interim financial statements.

REGISTERED OFFICE AND HEAD OFFICE OF THE ISSUER

Heungkuk Life Insurance Co., Ltd.
Heungkuk Life Building
68 Saemunan-ro, Jongro-gu
Seoul, Korea

UNDERWRITERS

J.P. Morgan Securities plc
25 Bank St.
Canary Wharf
London E14 5JP
United Kingdom

Nomura Financial Investment (Korea) Co., Ltd.
17th Floor, Seoul Finance Center
136 Sejong-daero, Jung-gu
Seoul 04520 Korea

LEGAL ADVISERS TO THE ISSUER

As to English law
Cleary Gottlieb Steen & Hamilton LLP
37th Floor, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

As to Korean law
Shin & Kim
8th Floor, State Tower
Namsan, 100 Toegye-ro
Jung-gu
Seoul 04631, Korea

LEGAL ADVISERS TO THE UNDERWRITERS

As to English law
Herbert Smith Freehills LLP
Exchange House
Primrose Street
London EC2A 2EG
United Kingdom

As to U.S. law
Simpson Thacher & Bartlett LLP
25th Floor, West Tower
Mirae Asset Center 1
26 Euji-ro 5-gil, Jung-gu
Seoul 04539, Korea

INDEPENDENT ACCOUNTANTS OF THE ISSUER

Samil PricewaterhouseCoopers
92, Hangang-daero
Yongsan-gu
Seoul 04386, Korea

Deloitte Anjin LLC
4~12Fl., One IFC Building
10, Gukjegeumyung-ro
Youngdeungpo-gu
Seoul 07326, Korea

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP
1 Robinson Road
#18-00 AIA Tower
Singapore 048542

Heungkuk Life Insurance Co., Ltd.

(Incorporated with limited liability under the laws of the Republic of Korea.)