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OFFERING CIRCULAR



(incorporated with limited liability under the laws of the Republic of Korea)

**₩230,000,000,000 U.S. Dollar-Settled Zero Coupon Guaranteed Exchangeable Bonds due 2021
Unconditionally and Irrevocably Guaranteed by**



Kookmin Bank

(incorporated with limited liability under the laws of the Republic of Korea)

Exchangeable for Common Shares of



LOEN Entertainment, Inc.

(incorporated with limited liability under the laws of the Republic of Korea)

The ₩230,000,000,000 U.S. Dollar-Settled Zero Coupon Guaranteed Exchangeable Bonds due 2021 (the "Bonds") to be issued by Kakao Corp. (the "Issuer," "we," "us") and unconditionally and irrevocably guaranteed (the "Guarantee") by Kookmin Bank (the "Guarantor") will be redeemed at maturity at the U.S. Dollar Equivalent (as defined herein), which will be determined based on the exchange rate then prevailing, of 100% of their principal amount, unless previously redeemed, repurchased and cancelled, or exchanged. Unless previously redeemed or repurchased and cancelled, the Bonds may be exchanged during the Exchange Period (as defined herein) into shares of common stock (the "Shares"), par value ₩500 per share, of LOEN Entertainment, Inc. ("LOEN") at the Exchange Price (as defined herein), which will initially be ₩104,933 per Share. The Bonds will be in registered form and will be issued in denominations of ₩200,000,000 or integral multiples thereof.

The Bonds may be redeemed on May 11, 2019 at the U.S. Dollar Equivalent of 100% of their principal amount at the option of the Bondholders. Each holder of the Bonds also has the right, at such holder's option, to require us to redeem all or a part of such holder's Bonds at the U.S. Dollar Equivalent of 100% of their principal amount, if LOEN undergoes a Change of Control (as defined herein) or if the Shares officially cease to be listed or admitted for trading or are suspended for a period of at least 30 consecutive Trading Days (as defined herein) on the KRX KOSDAQ Market. The Bonds may be redeemed on or after May 11, 2019 until the 30th business day prior to maturity, at our option, in whole but not in part, at the U.S. Dollar Equivalent of 100% of their principal amount, provided that the Bonds may not be so redeemed unless the Closing Price (as defined herein) per Share has been at least 130% of the Exchange Price then in effect for a specified period. The Bonds may also be redeemed by us at the U.S. Dollar Equivalent of 100% of their principal amount, in whole but not in part, in the event of certain changes relating to taxation or in the event that at least 90% of the initial principal amount of the Bonds has been redeemed, repurchased and cancelled, or exchanged.

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed (as defined herein) shall be payable and settled in U.S. dollars only. Based on an issue price of 100% of the principal amount of the Bonds and an exchange rate of ₩1,148.18 to US\$1.00 (which was the exchange rate prevailing on April 25, 2016, the date of the Subscription Agreement (as defined herein)), the subscription amount payable in respect of each Bond of ₩200,000,000 in principal amount is US\$174,188.72.

The Shares are listed and admitted for trading on the KRX KOSDAQ Market. The closing price of the Shares on the KRX KOSDAQ Market was ₩82,300 per Share on April 25, 2016, the date of the Subscription Agreement, and ₩78,900 per Share on May 4, 2016.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Bonds on the SGX-ST. The SGX-ST assumes no responsibility for the correctness 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 Bonds on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, LOEN, the Guarantor, the Bonds or the Shares deliverable upon exchange of the Bonds.

Investing in the Bonds or the Shares deliverable upon exchange of the Bonds involves risks. See "Risk Factors" beginning on page 14.

Issue Price: 100%

The Bonds, the Guarantee and the Shares deliverable upon exchange of the Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Bonds and the Guarantee are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"), and are subject to certain restrictions on transfer. See "Subscription and Sale."

The Bonds will be evidenced by a global certificate (the "Global Certificate"), which will be deposited on or about May 11, 2016 with the common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Except as described herein, beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream and their respective participants.

Joint Bookrunners and Joint Lead Managers

Citigroup

Morgan Stanley

The date of this offering circular is May 9, 2016.

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You should rely only on the information contained in this offering circular or to which we or the Guarantor have referred you. None of the Guarantor, us or the Managers (as defined in “Subscription and Sale”) has authorized anyone to provide you with information that is different or make any representation other than as contained in this offering circular in connection with the offering of the Bonds. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there have been no changes in the affairs of the Guarantor, our company or LOEN since the date hereof. You should assume the information in this offering circular is accurate only as of the date of this offering circular. The business, financial condition, results of operations and prospects of the Guarantor, our company or LOEN may have changed since that date. Statements contained in this offering circular as to the contents of any contract or other document referred to in this offering circular may not set forth all of the terms and conditions of such contracts or other documents.

This offering circular has been prepared by the Guarantor and us solely for use in connection with the proposed offering of the Bonds described in this offering circular. This offering circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Bonds. Distribution of this offering circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering circular, agrees to the foregoing and further agrees not to make any photocopies of this offering circular or any documents referred to in this offering circular.

The Bonds, the Guarantee and the Shares deliverable upon exchange of the Bonds have not been, and will not be, registered under the Securities Act. The Bonds and the Guarantee are being offered in reliance on an exemption from registration under the Securities Act for offers and sales of securities outside the United States. None of the Guarantor, us or the Managers is making an offer to sell the Bonds in any jurisdiction where the offer or sale is not permitted.

The Bonds, the Guarantee and the Shares deliverable upon exchange of the Bonds have not been recommended by any United States federal or state or foreign securities commission or regulatory authority. Furthermore, the foregoing authorities have not reviewed or passed on the accuracy or adequacy of this offering circular, and any representation to the contrary may be a criminal offense.

As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. The Bonds, the Guarantee and the Shares deliverable upon exchange of the Bonds are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal or state securities laws pursuant to a registration statement or an exemption from registration. See “Subscription and Sale.”

In making an investment decision, prospective investors must rely on their own examination of the Guarantor, our company and LOEN and the terms of this offering, including the merits and risks involved. Neither the Guarantor nor we are making any representation to any purchaser of the Bonds regarding the legality of an investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. Neither this offering circular nor any information supplied in connection with the issue of the Bonds should be considered as a recommendation or constituting an invitation or offer by the Guarantor or us that any recipient of this offering circular should purchase any Bonds. The contents of this offering circular should not be construed as providing legal, business, accounting or tax advice.

No representation, undertaking or warranty, express or implied, is made by the Managers, the Trustee (as defined in “Terms and Conditions of the Bonds”), the Agents (as defined in “Terms and

Conditions of the Bonds”) or any of their respective affiliates, employees, directors or advisers as to the accuracy or completeness of the information contained in this offering circular, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the Managers, the Trustee, the Agents or their respective affiliates, employees, directors or advisers. The Guarantor and we have furnished the information contained in this offering circular. The Managers, the Trustee and the Agents assume no responsibility for the accuracy or completeness of any such information (financial, legal or otherwise) provided by the Guarantor and us in connection with the issue of the Bonds or their distribution. Each person receiving this offering circular acknowledges that such person has not relied on the Managers, the Trustee, the Agents or any person affiliated with the Managers, the Trustee or the Agents in connection with investigation of the accuracy of such information or its investment decisions.

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

The distribution of this offering circular and the offering of the Bonds (or the Shares deliverable upon exchange of the Bonds) in certain jurisdictions may be restricted by law. This offering circular may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this offering circular may come are required to inform themselves about and to observe the relevant restrictions. No action is being taken to permit an offering to the general public of the Bonds or the Shares or the distribution of this offering circular in any jurisdiction where action would be required for those purposes.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE BONDS MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA (“KOREA”) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE) FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE BONDS, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, UNTIL THE EXPIRATION OF ONE YEAR AFTER THE ISSUANCE OF THE BONDS, THE BONDS MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA.

In connection with this offering, the Managers may effect transactions that stabilize or maintain the market price of the Bonds at a higher level than the Bonds might otherwise achieve in the open market for a limited period of time after the issue date. 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.”

Any purchase or acquisition of the Bonds is in all respects conditional on the satisfaction of certain conditions set out in the Subscription Agreement (as defined herein) and the issue of the Bonds by us to the Managers pursuant to the Subscription Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the Bonds pursuant to this offering circular shall (without liability or responsibility on the part of the Guarantor, us, the Managers, the Trustee or the Agents) lapse and cease to have any effect if (for any reason whatsoever) the Bonds are not issued by us to the Managers pursuant to the Subscription Agreement.

CERTAIN DEFINED TERMS AND CONVENTIONS

Market data, industry forecasts and certain statistical information used throughout this offering circular were obtained from internal surveys, market research, publicly available information and industry publications published by third party sources that the Guarantor and we believe are reliable, including the Korea Exchange. Such information has been accurately reproduced herein and, as far as the Guarantor and 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 none of the Guarantor, us, the Managers, the Trustee or the Agents makes any representation as to the accuracy or completeness of such information.

The consolidated financial statements of each of the Guarantor, our company and LOEN included in this offering circular were prepared in accordance with International Financial Reporting Standards as adopted by Korea (“K-IFRS”). In recent years, we and LOEN completed a number of acquisitions, which may affect the comparability from period to period of our and LOEN’s consolidated financial statements included in this offering circular. See Notes 36 and 38 of the notes to our consolidated financial statements, and Notes 30 and 31 of the notes to LOEN’s consolidated financial statements, included in this offering circular. In addition, on March 16, 2016, we acquired an aggregate of 76.4% of the outstanding Shares, as a result of which LOEN became a consolidated subsidiary of our company. See “The Issuer — The Acquisition,” “LOEN” and “Selected Consolidated Financial Information — Consolidated Financial Information of LOEN.” Our consolidated financial statements included in this offering circular do not reflect the effects of such acquisition.

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

- references to “we,” “us,” “our,” “ourselves,” “our company,” the “Issuer” or “Kakao” are to Kakao Corp. and, unless the context otherwise requires, its consolidated subsidiaries;
- references to “Daum” and “Old Kakao” for periods prior to October 2014 are to Daum Communications Co., Ltd. and Kakao Corp., respectively, our predecessor entities prior to their merger in October 2014;
- references to “LOEN” are to LOEN Entertainment, Inc.;
- references to the “Kakao Group” are to a group of companies affiliated with Kakao Corp. for the purposes of the Monopoly Regulation and Fair Trade Act of Korea;
- references to the “Guarantor” or the “Bank” are to Kookmin Bank;
- references to the “Bonds” are to our ₩230,000,000,000 U.S. Dollar-Settled Zero Coupon Guaranteed Exchangeable Bonds due 2021 described herein; and
- references to the “Shares” are to shares of LOEN’s common stock, par value ₩500 per share.

All references to “Korea” are to the Republic of Korea, and references to the “Government” are to the government of the Republic of Korea. All references to “U.S.” or the “United States” are to the United States of America.

All references to “Won,” “KRW” or “₩” are to the lawful currency of the Republic of Korea and all references to “U.S. dollars,” “USD” or “US\$” are to the lawful currency of the United States of America. Solely 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”). For a discussion of 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 May 4, 2016, the Market Average Exchange Rate in effect was ₩1,137.1 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 Guarantor’s website, <http://kbstar.com>, or our website, <http://www.kakaocorp.com>, or LOEN’s website, <http://www.iloen.com>, or any website directly or indirectly linked to such websites is not incorporated by reference into this offering circular and should not be relied upon.

FORWARD-LOOKING STATEMENTS

This offering circular contains “forward-looking statements” that are based on the Bank’s, our and LOEN’s current expectations, assumptions, estimates and projections about the Bank, our company and LOEN and our and their industries. Forward-looking statements are subject to various risks and uncertainties which could cause actual results to differ materially from historical results or those anticipated. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “estimate,” “expect,” “plan,” “intend,” “project,” “continue,” “contemplate,” “seek to,” “should,” and similar words or expressions. In particular, these statements relate to, among other things, the Bank’s, our and LOEN’s business strategies, the development and launch of our and their services and products, projected markets, sales, prices and market size, our and their projected revenues, market share, expenses, margins and expenditures and our and their liquidity. The forward-looking statements contained herein involve a number of known and unknown risks and uncertainties that could cause the Bank’s, our and LOEN’s future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements.

You should understand that many important factors, in addition to those discussed in this offering circular, could cause the Bank’s, our and LOEN’s results, performance or achievements to differ materially from those expressed in the forward-looking statements. Potential factors that could affect the Bank’s, our and LOEN’s results, performance or achievements include, in addition to others not described in this offering circular, those described under “Risk Factors.” These are factors that the Bank and we believe could cause the Bank’s, our and LOEN’s actual results, performance or achievements to differ materially from expected results, performance or achievements. Forward-looking statements speak only as of the date on which they were made and the Bank and we do not undertake to update or revise any forward-looking statements to reflect new information or future events or circumstances.

SUMMARY

The following summary highlights information appearing elsewhere in this offering circular and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including the financial statements and related notes, appearing elsewhere in this offering circular. You should carefully consider, among other things, the matters discussed in "Risk Factors."

The Guarantor

The Bank is one of the largest commercial banks in Korea in terms of total assets (including loans). As of December 31, 2015, the Bank had total assets of ₩290,278 billion, total deposits of ₩224,334 billion and total equity of ₩22,747 billion.

On the asset side, the Bank provides credit and related financial services to individuals and small- and medium-sized enterprises ("SMEs") and, to a lesser extent, to large corporate customers. On the deposit side, the Bank provides a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, the Bank's core consumer and SME operations place a high premium on customer access and convenience. The Bank's extensive branch network in Korea provides the Bank with access to a large, stable and cost-effective funding source, enables the Bank to provide its customers convenient access and gives the Bank the ability to provide the customer attention and service essential to conducting its business, particularly in an increasingly competitive environment. The Bank's branch network is further enhanced by automated banking machines and fixed-line, mobile and Internet banking. As of December 31, 2015, the Bank had a customer base of approximately 30.5 million retail customers, which represented approximately one-half of the Korean population.

The Bank provides a full range of personal lending products and retail banking services to individual customers, including mortgage loans. The Bank is the largest private sector mortgage lender in Korea.

Lending to SMEs is the single largest component of the Bank's non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both by type of lending and type of customer, with one of the categories being collateralized loans to "small office/home office" customers ("SOHOs") that are among the smallest of the SMEs. The volume of the Bank's loans to SMEs requires a customer-oriented approach that is facilitated by the Bank's large and geographically diverse branch network.

With respect to large corporate customers, the Bank continues to seek to maintain and expand quality relationships by providing them with an increasing range of fee-related services.

The legal name of the Bank is Kookmin Bank. The Bank is registered in Korea and incorporated with limited liability under the laws of Korea and operates pursuant to the Bank Act and the Bank of Korea Act of 1950, as amended (the "Bank of Korea Act"), as well as regulations and supervision of the Bank of Korea (the "BOK"), the BOK's Monetary Policy Committee (the "MPC"), the Financial Services Commission (the "FSC") and its executive body, the Financial Supervisory Service (the "FSS"). The Bank's registered office and corporate headquarters are located at 84, Namdaemoon-ro, Jung-gu, Seoul 04534, Korea.

The Issuer

We operate Korea's leading mobile platform service. We aim to provide our users with an expanding array of mobile services that satisfy their lifestyle needs by enabling them to conduct more aspects of their daily affairs using their mobile devices at their convenience. We offer users the ability to communicate, play games, search content, shop and make payments online using our mobile services, which include Kakao Talk, Korea's largest mobile instant messaging service in 2015 according to Nielsen KoreanClick (based on monthly average users aged 7 to 69 using mobile applications on Google Android mobile operating systems). We also offer online-to-offline ("O2O") services, and Kakao Taxi, our mobile service connecting taxi drivers to passengers, which was launched in 2015, has become Korea's leading taxi mobile application based on daily taxi requests, according to our internal estimates. In addition, we provide a variety of web-based search, e-mail, online community and other services through our operation of one of Korea's leading portal websites, www.daum.net. We believe that the integration of our services through our mobile platform provides our users a smoother and richer connection experience that contributes to higher user loyalty and growth of our user base and business.

We were formed through the merger of Old Kakao with and into Daum on October 1, 2014. Founded in December 2006 as IWILAB Co., Ltd., Old Kakao launched Kakao Talk and changed its name to Kakao Corp. in 2010. With over 20 years of operational history since its founding in February 1995, Daum introduced Korea's first free email service, Daum Mail (formerly known as Hanmail), in 1997, and its search engine, Daum Search, was the second most utilized web-based search engine in Korea in 2015 according to Nielsen KoreanClick (based on personal computer and mobile device search time among users aged 7 to 69). On March 16, 2016, we acquired an aggregate of 76.4% of the outstanding Shares, as a result of which LOEN became a consolidated subsidiary of our company.

We generate revenues by leveraging the large number of affiliations and interests that connect the people and entities that constitute our user base and mobilizing our users to actively and repeatedly engage and interact with the wide variety of services and contents we provide on our mobile platform. Our revenues are primarily generated from advertising services, games and online commerce.

LOEN

LOEN is a leading music entertainment company in Korea, offering a wide range of services that cover key components of the music industry value chain. LOEN operates the following:

- MelOn, Korea's leading online music streaming and downloading service, with a market share of approximately 60% of the Korean online retail music market in 2015 based on revenues, according to its internal estimates.
- LOEN Music, Korea's leading music distributor, with a market share of approximately 24% of the Korean wholesale music distribution market in 2015 based on revenues, according to its internal estimates. Through LOEN Music, LOEN engages in online and offline distribution of music and also operates 1theK, a global K-pop channel on YouTube and social network services.
- Production companies under multiple brands focusing on specific entertainment markets, including LOEN Tree, Starship Entertainment, Kingkong Entertainment and Plan A

Entertainment (formerly A Cube Entertainment), which manage many of the leading K-pop musicians, as well as actors, and provide infrastructure for creation of attractive music content.

LOEN believes that its vertically-integrated platform encompassing a comprehensive range of music-related services gives it a competitive advantage compared to other music entertainment companies in Korea, enabling LOEN to gain greater insight into, and more effectively respond to, rapidly evolving trends in the music industry, as well as providing it with a more efficient cost structure. Leveraging its integrated platform, strong brand power and substantial experience in the Korean music market, LOEN aims to enhance its position as a leading music entertainment company in Korea and to take advantage of business opportunities offered by the increasing global popularity of K-pop.

Seoul Record, the predecessor company to LOEN, was founded in 1978. SK Telecom Co., Ltd. ("SK Telecom"), Korea's largest mobile telecommunications service provider, purchased a majority interest in the company in 2005, and subsequently transferred its MelOn operations to LOEN in 2008. In 2013, SK Telecom sold a 53% interest in LOEN to Star Invest Holdings Limited ("SIH"), an affiliate of Affinity Equity Partners. On March 16, 2016, we completed our acquisition of 61.4% and 15.0% of the outstanding Shares from SIH and SK Planet Co., Ltd. ("SK Planet") (a wholly-owned subsidiary of SK Telecom), respectively, as a result of which LOEN became a consolidated subsidiary of our company.

LOEN's operating revenue amounted to ₩358 billion and its profit for the period amounted to ₩50 billion in 2015. LOEN had total assets of ₩363 billion and total equity of ₩246 billion as of December 31, 2015.

The Offering

Terms used below and not otherwise defined have the meanings given to them in “Terms and Conditions of the Bonds.”

Issuer	Kakao Corp.
Guarantor	Kookmin Bank
Issue	₩230,000,000,000 U.S. Dollar-Settled Zero Coupon Guaranteed Exchangeable Bonds due 2021, exchangeable into the Shares
Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all principal amounts payable by us under the Bonds (provided, that such principal amounts guaranteed by the Guarantor shall be no greater than ₩230,000,000,000).
Shares	Shares of common stock, par value ₩500 per share, of LOEN Entertainment, Inc., which are listed on the KRX KOSDAQ Market
Issue Price	100% of the principal amount of the Bonds
Subscription Amount	The subscription amount payable in respect of each Bond of ₩200,000,000 in principal amount is US\$174,188.72, based on an exchange rate of ₩1,148.18 to US\$1.00, the exchange rate prevailing on April 25, 2016, the date of the Subscription Agreement.
Offering	The Bonds are being offered by the Managers outside the United States in reliance on Regulation S. We have not registered, and will not register, under the securities laws of the United States, the Bonds or any of the Shares deliverable upon exchange of the Bonds.
Interest	The Bonds will not bear any interest.
Exchange	Each Bondholder has the right to exchange any of its Bonds or any portion thereof (being ₩200,000,000 in principal amount or an integral multiple thereof) into the Shares at any time during the Exchange Period referred to below, subject to compliance with certain restrictions and exchange procedures. The Shares deliverable upon exchange will rank <i>pari passu</i> in all respects with the Shares then outstanding.
Exchange Period	From and including June 21, 2016 up to and including April 30, 2021 (or, if the Bonds shall have been called for redemption by us prior to maturity, seven Business Days prior to the redemption date). See “Terms and Conditions of the Bonds — Exchange — Exchange Right.”

Exchange Price	The initial Exchange Price will be ₩104,933 per Share. The Exchange Price will be subject to adjustment in certain circumstances as described in “Terms and Conditions of the Bonds — Exchange — Adjustments to Exchange Price.”
Redemption at Maturity	Unless previously redeemed, repurchased and cancelled, or exchanged, the Bonds will be redeemed at the U.S. Dollar Equivalent of 100% of their principal amount on May 11, 2021. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Maturity.”
Redemption at Our Option	We may, at our option at any time on or after May 11, 2019, until the 30 th business day prior to the Maturity Date, redeem the Bonds, in whole but not in part, at the U.S. Dollar Equivalent of 100% of their principal amount, if the Closing Price of a Share for each of 20 Trading Days in the period of 30 consecutive Trading Days ending on the Trading Day immediately prior to the date of our redemption notice, is at least 130% of the prevailing Exchange Price. In addition, in the event that at least 90% of the initial principal amount of the Bonds have been redeemed, repurchased and cancelled, or exchanged, we may, prior to their maturity, redeem, in whole but not in part, the remaining outstanding Bonds at the U.S. Dollar Equivalent of 100% of their principal amount. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer.”
Redemption for Taxation Reasons	We may at any time redeem the Bonds, in whole but not in part, at the U.S. Dollar Equivalent of 100% of their principal amount in the event of certain changes relating to taxation in Korea that would require us to gross up for any payments on the Bonds. This redemption right is subject to the right of each Bondholder to forego such gross-up amounts and leave its respective Bonds outstanding. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation Reasons.”
Redemption at the Option of the Bondholders	Until and unless previously redeemed, repurchased and cancelled, or exchanged, on May 11, 2019, each of the Bondholders has the right, at the option of such holder, to require us to redeem all or a portion (in an aggregate principal amount of at least ₩200,000,000 or an integral multiple thereof) of such holder’s Bonds at the U.S. Dollar Equivalent of 100% of their principal amount. See “Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the Option of the Bondholders.”
Redemption in the Event of Delisting	In the event that the Shares officially cease to be listed or admitted for trading or are suspended for a period of at least 30 consecutive Trading Days on the KRX KOSDAQ Market, each

Bondholder shall have the right, at such Bondholder's option, to require us to redeem at the U.S. Dollar Equivalent of 100% of their principal amount all or a portion of such holder's Bonds (in an aggregate principal amount of at least ₩200,000,000 or an integral multiple thereof). See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Delisting Put Right."

Redemption in the Event of Change of Control

If a Change of Control occurs with respect to LOEN, each Bondholder shall have the right, at such Bondholder's option, to require us to redeem all or a portion of such holder's Bonds (in an aggregate principal amount of at least ₩200,000,000 or an integral multiple thereof) on the date set by us for such redemption, which shall not be less than 30 nor more than 60 days after the occurrence of a Change of Control, at the U.S. Dollar Equivalent of 100% of their principal amount. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Change of Control."

Securities Lending

We have entered into securities lending agreements dated April 25, 2016 (the "Securities Lending Agreements") with each of the Managers under which we will loan to the Managers up to an aggregate of 2,191,885 Shares from time to time. The purpose of the Securities Lending Agreements is to facilitate on-lending transactions with investors in the Bonds, who may use such Shares to establish their hedge positions in respect of the Bonds. Under the Securities Lending Agreements, we have the right to terminate the loans (i) upon the earliest of (x) the fifth anniversary of the Closing Date (as defined herein), (y) the date on which the Bonds have been redeemed in full and (z) the date on which the Bonds have been exchanged in full for the Shares, or (ii) when we cease to have a majority voting right with respect to the Shares as a result of the securities lending transactions or the delivery of such Shares upon exchange of the Bonds, to the extent necessary to keep our majority voting right with respect to the Shares.

Status

The Bonds will constitute our direct, unsubordinated, unconditional and (subject to the negative pledge provisions) unsecured obligations and shall at all times rank *pari passu* and ratably without preference or priority among themselves and at least equally with all our other present and future direct, unconditional, unsubordinated and unsecured obligations, except as may be required by mandatory provisions of law.

The Guarantee will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor which will, save for such exceptions as may be provided by

	<p>mandatory provisions of applicable law, at all times rank at least equally with all other present and future direct, unconditional, unsubordinated and unsecured indebtedness of the Guarantor.</p>
Negative Pledge	<p>Subject to certain exceptions, we will not, and will not permit any Principal Subsidiary to, create or permit to be outstanding any security interest in respect of International Investment Securities without equally and ratably securing the Bonds. See “Terms and Conditions of the Bonds — Negative Pledge.”</p>
Form and Denomination and Trading of the Bonds	<p>The Bonds will be originally issued in registered form, without coupons, in denominations of ₩200,000,000 or integral multiples thereof.</p> <p>The Bonds will be evidenced by the Global Certificate, without coupons, which will be deposited on or about the Closing Date with, and registered in the name of a nominee of, The Bank of New York Mellon, London Branch, as common depository for Euroclear and Clearstream.</p> <p>For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Bonds will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Bonds will be traded on the SGX-ST in a minimum board lot size of ₩200,000,000.</p>
Governing Law	<p>English law</p>
Transfer Restrictions	<p>The Bonds may not be offered, sold or otherwise transferred to a Korean resident on or prior to May 11, 2017, the first anniversary of the Closing Date. To exercise the right of exchange with respect to a Bond, a Bondholder must also make the representations in the Exchange Notice described in “Terms and Conditions of the Bonds — Exchange.”</p>
Listing of the Bonds and the Shares	<p>Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST.</p> <p>The Shares, including the Shares deliverable upon exchange of the Bonds, are listed and admitted for trading on the KRX KOSDAQ Market.</p>
Trustee	<p>The Bank of New York Mellon, London Branch</p>
Clearance and Settlement of Bonds	<p>The Bonds will clear and settle solely through the book-entry transfer facilities maintained by Euroclear and Clearstream.</p>

Lockup

We and LOEN have agreed that we and LOEN will not (and will not announce an intention to), without the prior written consent of the Managers, until 90 days following the Closing Date, (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe for or purchase any interest in, or any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase, the Shares or securities of the same class as the Shares or other instruments representing interests in the Shares or other securities of the same class as them or (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares (settled by delivery of the Shares or other securities, in cash or otherwise), subject to certain exceptions. See "Subscription and Sale."

ISIN

XS1402169764

Common Code

140216976

Summary Consolidated Financial Information

Consolidated Financial Information of the Guarantor

The following tables set forth the summary consolidated financial information of the Bank. The summary consolidated financial information of the Bank as of and for the years ended December 31, 2013, 2014 and 2015 set forth below has been derived from its audited consolidated financial statements and related notes included elsewhere in this offering circular.

The summary financial information set forth below should be read in conjunction with the consolidated financial statements of the Bank and related notes included elsewhere in this offering circular, which have been prepared in accordance with K-IFRS.

Consolidated Statement of Comprehensive Income Information

	For the Year Ended December 31,		
	2013	2014	2015
	<i>(in billions of Won)</i>		
Interest income	₩ 10,595	₩ 9,703	₩ 8,388
Interest expense	(5,435)	(4,731)	(3,677)
Net interest income	5,160	4,971	4,712
Fee and commission income	1,282	1,271	1,372
Fee and commission expense	(177)	(193)	(216)
Net fee and commission income	1,105	1,078	1,156
Net gains on financial assets/liabilities at fair value through profit or loss	691	356	287
Net other operating expenses	(1,055)	(769)	(422)
General and administrative expenses	(3,397)	(3,373)	(3,812)
Operating profit before provision for credit losses	2,503	2,264	1,922
Provision for credit losses	(1,065)	(888)	(742)
Operating profit	1,438	1,377	1,180
Share of profit (loss) of associates	(203)	18	8
Net other non-operating income (expenses)	(24)	(34)	193
Net non-operating profit (loss)	(227)	(16)	201
Profit before income tax expense	1,212	1,360	1,381
Income tax expenses	(381)	(331)	(274)
Profit for the year	₩ 831	₩ 1,029	₩ 1,107
(Adjusted profit after provision of regulatory reserve for credit losses)	730	852	1,140
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	42	(84)	(14)
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments	(2)	17	45
Valuation gains (losses) on financial investments	34	222	(78)
Share of other comprehensive income (loss) of associates	(10)	(33)	3
Loss on hedging instruments of net investments in foreign operations	—	—	(25)
Other comprehensive income (loss) for the year, net of tax	64	123	(70)
Total comprehensive income for the year	₩ 894	₩ 1,152	₩ 1,037
Profit attributable to:			
Shareholders of the parent company	831	1,029	1,107
Non-controlling interests	—	—	—
	₩ 831	₩ 1,029	₩ 1,107
Total comprehensive income attributable to:			
Shareholders of the parent entity	₩ 894	₩ 1,152	₩ 1,037
Non-controlling interests	₩ —	₩ —	₩ —

Consolidated Statement of Financial Position Information

	As of December 31,		
	2013	2014	2015
	<i>(in billions of Won)</i>		
Assets			
Cash and due from financial institutions	₩ 13,730	₩ 13,974	₩ 14,563
Financial assets at fair value through profit or loss	7,070	7,520	6,488
Derivative financial assets	1,719	1,910	2,186
Loans	203,124	211,526	222,738
Financial investments	30,087	29,259	32,912
Investments in associates	742	667	670
Property and equipment	2,903	2,888	2,909
Investment property	201	409	413
Intangible assets	225	207	182
Current income tax assets	329	306	18
Deferred income tax assets	0	5	8
Assets held for sale	21	54	34
Other assets	5,437	6,729	7,157
Total assets	₩265,588	₩275,454	₩290,278
Liabilities			
Financial liabilities at fair value through profit or loss	40	52	69
Derivative financial liabilities	1,766	1,759	2,139
Deposits	200,968	211,611	224,334
Debts	13,570	14,297	14,292
Debentures	16,213	15,250	15,949
Provisions	540	483	450
Net defined benefit liabilities	52	57	56
Current income tax liabilities	1	8	7
Deferred income tax liabilities	120	110	165
Other liabilities	11,372	9,884	10,070
Total liabilities	₩244,642	₩253,513	₩267,531
Equity			
Capital stock	₩ 2,022	₩ 2,022	₩ 2,022
Capital surplus	5,220	5,220	5,220
Accumulated other comprehensive income	448	571	501
Retained earnings	13,258	14,128	15,005
(Provision of regulatory reserve for credit losses)	(1,590)	(1,691)	(1,868)
(Amounts estimated to be appropriated)	(101)	(177)	33
Equity attributable to shareholders of the parent company ..	20,947	21,940	22,747
Non-controlling interest equity	—	—	—
Total equity	20,947	21,940	22,747
Total liabilities and equity	₩265,588	₩275,454	₩290,278

Summary Operating Information

Unless otherwise stated, the summary ratios set forth below as of and for the years ended 2013, 2014 and 2015 are calculated based on the separate financial statements of the Bank prepared in accordance with K-IFRS, which are not included in this offering circular.

	As of or for the Year Ended December 31,		
	2013	2014	2015
Profit as a percentage of:			
Average total assets ⁽¹⁾	0.30%	0.33%	0.39%
Average equity ⁽¹⁾	4.21	4.51	5.27
Ratio of non-performing credits to total credits ⁽²⁾	1.43	1.03	0.84
Ratio of allowance to total credits ⁽²⁾	1.98	1.74	1.66
Net interest spread ⁽³⁾	1.84	1.74	1.55
Net interest margin ⁽⁴⁾	1.91	1.81	1.61
Total capital adequacy ratio ⁽⁵⁾⁽⁹⁾	15.42	15.97	16.01
Tier I capital adequacy ratio ⁽⁶⁾⁽⁹⁾	12.61	13.38	13.74
Common equity Tier I capital adequacy ratio ⁽⁷⁾⁽⁹⁾	12.61	13.38	13.74
Tier II capital adequacy ratio ⁽⁸⁾⁽⁹⁾	2.81	2.59	2.27

Notes:

- (1) Derived by dividing profit by the daily average balance of total assets or total equity, as applicable, in each case calculated in accordance with applicable FSS reporting guidelines.
- (2) Includes loans, guarantees and other credits in both the banking and trust accounts, calculated in accordance with applicable FSS reporting guidelines.
- (3) Represents the difference between the average annual rate of interest earned on interest earning assets and the average annual rate of interest paid on interest bearing liabilities, calculated in accordance with applicable FSS reporting guidelines.
- (4) Derived by dividing net interest income by average interest earning assets, calculated in accordance with applicable FSS reporting guidelines.
- (5) Calculated as the ratio of the sum of Tier I and Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (6) Calculated as the ratio of Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (7) Calculated as the ratio of common equity Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (8) Calculated as the ratio of Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (9) Calculated based on the consolidated financial statements of the Bank prepared in accordance with K-IFRS.

Consolidated Financial Information of LOEN

The following tables set forth the summary consolidated financial information of LOEN. The summary consolidated financial information of LOEN as of and for the years ended December 31, 2014 and 2015 set forth below has been derived from its audited consolidated financial statements and related notes included elsewhere in this offering circular.

The summary financial information set forth below should be read in conjunction with the consolidated financial statements of LOEN and related notes included elsewhere in this offering circular, which have been prepared in accordance with K-IFRS.

Consolidated Statement of Comprehensive Income Information

	For the Year Ended December 31,	
	2014	2015
	<i>(in billions of Won, except per share amounts)</i>	
Operating revenue	₩ 323	₩ 358
Operating expenses	(265)	(294)
Operating profit	58	63
Other income	0	1
Other expenses	(3)	(2)
Finance income	4	4
Finance costs	(0)	(0)
Profit before income tax	60	66
Income tax expenses	(14)	(16)
Profit for the year	₩ 46	₩ 50
Earnings per share	₩ 1,801	₩ 1,983

Consolidated Statement of Financial Position Information

	As of December 31,	
	2014	2015
	<i>(in billions of Won)</i>	
Total assets	₩ 304	₩ 363
Current assets	240	271
Cash and cash equivalents	38	83
Other financial assets	124	104
Trade and other receivables	57	58
Non-current assets	64	92
Available-for-sale financial assets	2	16
Property and equipment	13	12
Intangible assets	34	47
Total liabilities	98	117
Current liabilities	96	112
Trade and other payables	62	76
Non-current liabilities	2	5
Total equity	206	246
Capital stock	13	13
Capital surplus	47	48
Retained earnings	133	165

RISK FACTORS

Investing in the Bonds involves risks and uncertainties. Prospective purchasers of the Bonds are advised to review carefully all of the information contained elsewhere in this offering circular and should consider, in particular, the following risk factors before purchasing the Bonds. The risks described below are not the only ones that may be relevant to the Guarantor, the Issuer, LOEN, the trading price of the Bonds, the Guarantor or the Shares.

Risks Related to the Guarantor

Future changes in market conditions as well as other factors may lead to increases in delinquency levels of the Bank's retail loan portfolio.

In recent years, consumer debt has increased significantly in Korea. The Bank's portfolio of retail loans on a separate basis, including mortgage and home equity loans, increased from ₩103,946 billion as of December 31, 2013 to ₩112,080 billion as of December 31, 2014 and ₩115,811 billion as of December 31, 2015. As of December 31, 2015, on a separate basis, the Bank's retail loans represented 51.6% of the Bank's total lending. On a separate basis, within the Bank's retail loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans are often unsecured and therefore tend to carry a higher credit risk, decreased from ₩26,271 billion as of December 31, 2013 to ₩25,124 billion as of December 31, 2014 but increased to ₩28,088 billion as of December 31, 2015; as a percentage of total outstanding retail loans on a separate basis, such balance decreased from 25.3% as of December 31, 2013 to 22.4% as of December 31, 2014 but increased to 24.2% as of December 31, 2015. The growth of the Bank's retail lending business, which generally offers higher margins than other lending activities, has contributed significantly to its interest income and profitability in recent years.

The growth of the Bank's retail loan portfolio, together with adverse economic conditions in Korea and globally in recent years, may lead to increases in delinquency levels and a deterioration in asset quality. On a separate basis, the amount of the Bank's non-performing retail loans (defined as those loans that are past due by 90 days or more) decreased from ₩546 billion as of December 31, 2013 to ₩302 billion as of December 31, 2014 and ₩248 billion as of December 31, 2015. Higher delinquencies in the Bank's retail loan portfolio in the future will require the Bank to increase its loan loss provisions and charge-offs, which in turn will adversely affect its financial condition and results of operations.

The Bank's large exposure to consumer debt means that it is exposed to changes in economic conditions affecting Korean consumers. Accordingly, a rise in unemployment, an increase in interest rates, a deterioration of the real estate market or difficulties in the Korean economy may have an adverse effect on Korean consumers, which could result in reduced growth and further deterioration in the credit quality of the Bank's retail loan portfolio. See "— Risks Related to Korea." In order to minimize the Bank's risk as a result of such exposure, the Bank is continuing to strengthen its risk management processes, including further improving the retail lending process, upgrading its retail credit rating system, as well as strengthening the overall management of its portfolio. Despite the Bank's efforts, however, there is no assurance that it will be able to prevent significant credit quality deterioration in its retail loan portfolio.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the FSC requested Korean banks, including the Bank, to establish a "pre-workout program," including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt defaults. Under the pre-workout program, which has been in operation since April 2009, maturity extensions

and/or interest reductions are provided for retail borrowers with total loans of ₩1.5 billion or less (consisting of no more than ₩500 million of unsecured loans and ₩1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days or for retail borrowers with an annual income of ₩40 million or less who have been in arrears on their payments for 30 days or more on an aggregate basis for the 12 months prior to their application. In addition, in March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Government launched, and requested Korean banks to participate in, a mortgage loan refinancing program aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Under such refinancing program, over 340,000 qualified retail borrowers converted their outstanding non-amortizing floating-rate mortgage loans from Korean commercial banks (including the Bank) into amortizing fixed-rate mortgage loans with lower interest rates, amounting to an aggregate principal amount of ₩34 trillion for all commercial banks in 2015. The Bank's continued participation in such refinancing program may lead to a decrease in its interest income on its outstanding mortgage loans, as well as in its overall net interest margin. Moreover, the Bank's participation in such initiatives led by the Government to provide financial support to retail borrowers may lead the Bank to offer credit terms for such borrowers that it would not generally offer, which may have an adverse effect on the Bank's results of operations and financial condition.

The Bank has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Bank's asset quality and have an adverse impact on the Bank.

One of the Bank's core businesses is lending to SMEs. The Bank's loans to SMEs increased from ₩69,990 billion as of December 31, 2013 to ₩77,005 billion as of December 31, 2015. During that period, non-performing loans (defined as those loans that are past due by 90 days or more) to SMEs decreased from ₩485 billion to ₩254 billion, and the non-performing loan ratio for such loans decreased from 0.7% to 0.3%. However, the Bank's non-performing loans and non-performing loan ratio may increase in 2016. According to data compiled by the FSS, the delinquency ratio for Won currency loans by Korean commercial banks to SMEs was 0.7% as of December 31, 2015. The delinquency ratio for Won-currency loans to SMEs is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are overdue by one month or more to (2) the aggregate outstanding balance of such loans. The Bank's delinquency ratio for such loans decreased from 0.9% as of December 31, 2013 to 0.5% as of December 31, 2015. However, the Bank's delinquency ratio for such Won currency loans may increase in 2016. In recent years, the Bank has taken measures which sought to stem rising delinquencies in its loans to SMEs, including through strengthening the review of loan applications and closer monitoring of the post-loan performance of SME borrowers in industry sectors that are relatively more sensitive to downturns in the economy and have shown higher delinquency ratios, such as construction, lodging, retail and wholesale, restaurants and real estate. Despite such efforts, however, there is no assurance that delinquency levels for the Bank's loans to SMEs will not rise in the future. In particular, financial difficulties experienced by SMEs as a result of, among other things, adverse economic conditions in Korea and globally in recent years may lead to a deterioration in the asset quality of the Bank's loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which could have a material adverse impact on the Bank's financial condition and results of operations.

In addition, many SMEs have close business relationships with the largest Korean commercial conglomerates, known as "chaebols," primarily as suppliers. Any difficulties encountered by those chaebols would likely hurt the liquidity and financial condition of related SMEs, including those to which the Bank has exposure, also resulting in an impairment of their ability to repay loans.

A substantial part of the Bank's SME lending comprises loans to SOHOs. SOHOs, which the Bank currently defines to include sole proprietorships and individual business interests, are usually dependent on a limited number of suppliers or customers. SOHOs tend to be affected to a greater extent than larger corporate borrowers by fluctuations in the Korean economy. In addition, SOHOs often maintain less sophisticated financial records than other corporate borrowers. Although the Bank continues to make efforts to improve its internally developed credit rating systems to rate potential borrowers, particularly with respect to SOHOs, and intends to manage its exposure to these borrowers closely in order to prevent any deterioration in the asset quality of the Bank's loans to this segment, the Bank may not be able to do so as intended.

In light of the deteriorating financial condition and liquidity position of SMEs in Korea since the global financial crisis commencing in the second half of 2008, the Government introduced policies and initiatives intended to encourage Korean banks to provide financial support to SMEs. For example, in October 2008, the FSS requested Korean banks, including the Bank, to establish a "fast track" program to provide liquidity assistance to SMEs on an expedited basis. Under the fast track program established by the Bank, which has been extended until December 31, 2016, the Bank provides liquidity assistance to qualified SME borrowers applying for such assistance, in the form of new loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by the Bank. The overall prospects for the Korean economy in 2016 and beyond remain uncertain, and the Government may extend or renew existing or past policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to SMEs. The Bank's participation in such Government-led initiatives may lead the Bank to extend credit to SME borrowers that the Bank would not otherwise extend, or offer terms for such credit that the Bank would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of the Bank's SME borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in the Bank's exposure to SME borrowers resulting from such Government-led initiatives may have a material adverse effect on the Bank's financial condition and results of operations.

The Bank has exposure to Korean construction, shipbuilding and shipping companies, and financial difficulties of these companies may have an adverse impact on the Bank.

As of December 31, 2015, on a separate basis, the Bank had loans outstanding to construction companies, shipbuilding companies and shipping companies (many of which are SMEs) in the amount of ₩3,350 billion, ₩959 billion and ₩700 billion, or 1.5%, 0.4% and 0.3% of its total loans, respectively. The Bank also has other exposures to Korean construction, shipbuilding and shipping companies, including in the form of guarantees extended on behalf of such companies (which included, on a separate basis, ₩606 billion of confirmed guarantees for construction companies, ₩1,698 billion of confirmed guarantees for shipbuilding companies and ₩1 billion of confirmed guarantees for shipping companies as of December 31, 2015) and debt and equity securities of such companies held by the Bank. In the case of construction companies, such exposures include guarantees provided to the Bank by general contractors with respect to financing extended by the Bank for residential and commercial real estate development projects. In the case of shipbuilding companies, such exposures include refund guarantees extended by the Bank on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts.

The construction industry in Korea has experienced an overall downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of the deterioration of the Korean economy. The shipbuilding industry in Korea has also experienced a severe downturn in recent years due to a significant decrease in ship orders, primarily due to adverse

conditions in the global economy and the resulting slowdown in global trade. In the case of shipping companies in Korea, reduced shipping rates and high chartering costs, together with the slowdown in global trade, have contributed to the deterioration of their financial condition, requiring some of them to pursue voluntary restructuring of their debt.

In response to the deteriorating financial condition and liquidity position of borrowers in the construction, shipbuilding and shipping industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Government implemented a program in 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including the Bank) and the Government. Each year since 2009, the FSC and the FSS have announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including the Bank) of companies in Korea with outstanding credit exposures of ₩50 billion or more, pursuant to which a number of companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Most recently, in 2015, 54 companies with outstanding credit exposures of ₩50 billion or more (14 of which were construction companies and four of which were shipbuilding companies) were selected by such financial institutions for restructuring. However, there is no assurance that these measures will be successful in stabilizing the Korean construction, shipbuilding and shipping industries.

The allowances that the Bank has established against its credit exposures to Korean construction, shipbuilding and shipping companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of the Bank's exposures to Korean construction, shipbuilding and shipping companies declines further, the Bank may be required to take substantial additional provisions (including in connection with restructurings of such companies), which could adversely impact its results of operations and financial condition. Furthermore, although a portion of the Bank's credit exposures to construction, shipbuilding and shipping companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such credit exposures. See "— A decline in the value of the collateral securing the Bank's loans and the Bank's inability to realize full collateral value may adversely affect its credit portfolio."

The Bank also has construction-related credit exposures under its project financing loans for real estate development projects in Korea. In light of the general deterioration in the asset quality of real estate project financing loans in Korea in recent years, Korean banks, including the Bank, implemented a uniform set of guidelines to apply more stringent criteria in evaluating the asset quality of real estate project financing loans. As a result, the Bank may be required to establish additional allowances with respect to its outstanding real estate project financing loans, which could adversely affect its financial condition and results of operations.

The Bank has exposure to chaebols, and, as a result, financial difficulties of chaebols may have an adverse impact on the Bank.

Of the Bank's 20 largest corporate exposures (including loans, debt and equity securities and guarantees and acceptances) as of December 31, 2015, 14 were to companies that were members of the 41 largest chaebols in Korea designated as such by the FSS based on their outstanding exposures. As of that date, the total amount of the Bank's exposures to such 41 chaebols was ₩20,127 billion, or 7% of the Bank's total exposures. If the credit quality of the Bank's exposures to chaebols declines, the Bank could require substantial additional loan loss provisions, which would hurt its results of operations and financial condition.

The Bank cannot provide assurance that the allowances it has established against these exposures will be sufficient to cover all future losses arising from these exposures. In addition, with respect to those companies that are in or in the future enter into workout or liquidation proceedings, the Bank may not be able to make any recoveries against such companies. The Bank may, therefore, experience future losses with respect to those loans.

The Bank has exposure to companies that are currently or may in the future be put in restructuring, and the Bank may suffer losses as a result of additional loan loss provisions required and/or the adoption of restructuring plans with which it does not agree.

As of December 31, 2015, the Bank's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩686 billion or 0.3% of the Bank's total loans and guarantees, most of which were classified as impaired. As of the same date, the Bank's allowances for credit losses on these loans and guarantees amounted to ₩371 billion, or 54% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from the Bank's exposure to these companies. Furthermore, the Bank has other exposure to such companies, in the form of debt and equity securities of such companies held by the Bank (including equity securities the Bank acquired as a result of debt-to-equity conversions). In addition, in the case of borrowers that are or become subject to workout, the Bank may be forced to restructure its credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of the Bank's credits to other creditors on unfavorable terms.

A large portion of the Bank's credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of the Bank's corporate credit portfolio.

As of December 31, 2015, the Bank's loans and guarantees to its 20 largest borrowers totaled ₩9,333 billion and accounted for 4% of the Bank's total loans and guarantees. As of that date, the Bank's single largest corporate credit exposure was to Daewoo Shipbuilding & Marine Engineering Co., Ltd. ("DSME"), to which the Bank had outstanding loans and guarantees (the majority of which was in the form of guarantees) of ₩1,097 billion, representing 0.5% of the Bank's total loans and guarantees. DSME has recorded substantial losses and has been experiencing financial difficulties in recent years, including as a result of a significant decrease in ship orders and increased costs and delays in the construction of offshore facilities, amid a prolonged slowdown in the global shipping and shipbuilding industries. See "— The Bank has exposure to Korean construction, shipbuilding and shipping companies, and financial difficulties of these companies may have an adverse impact on the Bank." While DSME has been implementing cost-cutting and other restructuring measures intended to normalize its operations, there is no guarantee that such measures will be successful in stabilizing its financial condition. Any further deterioration in the financial condition of DSME or the Bank's other largest corporate borrowers may require the Bank to record substantial additional provisions and charge-offs and may have a material adverse impact on its results of operations and financial condition.

Although increasing its fee income is an important part of the Bank's strategy, the Bank may not be able to do so.

The Bank has historically relied on interest income as its primary revenue source. While the Bank has developed new sources of fee income as part of its business strategy, the Bank's ability to increase its fee income and thereby reduce its dependence on interest income will be affected by the extent to which the Bank's customers generally accept the concept of fee-based services. Historically, customers in Korea have generally been reluctant to pay fees in return for value-added financial services, and their continued reluctance to do so will adversely affect the implementation of the Bank's strategy to increase its fee income. Furthermore, the fees that the Bank charges to customers are

subject to regulation by Korean financial regulatory authorities, which may seek to implement regulations or measures that may also have an adverse impact on the Bank's ability to achieve this aspect of the Bank's strategy.

The Bank may suffer customer attrition or the Bank's net interest margin may decrease as a result of its competition strategy.

The Bank has been pursuing, and intends to continue to pursue, a strategy of maintaining or enhancing its margins where possible and avoid, to the extent possible, entering into price competition. In order to execute this strategy, the Bank will need to maintain relatively low interest rates on its deposit products while charging relatively higher rates on loans. If other banks and financial institutions adopt a strategy of expanding market share through interest rate competition, the Bank may suffer customer attrition due to rate sensitivity. In addition, the Bank may in the future decide to compete to a greater extent based on interest rates, which could lead to a decrease in its net interest margins. Any future decline in the Bank's customer base or its net interest margins as a result of its future competition strategy could have an adverse effect on the Bank's results of operations and financial condition.

Competition in the Korean banking industry is intense, and the Bank may lose market share and experience declining margins as a result.

Competition in the Korean financial industry has been and is likely to remain intense. Some of the financial institutions that the Bank competes with have greater financial resources or more specialized capabilities than the Bank. In the retail and SME lending business, which has been the Bank's traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been focusing on retail customers and SMEs in recent years, although they have begun to generally increase their exposure to large corporate borrowers. In addition, the profitability of the Bank's retail banking operations may decline as a result of growing market saturation in the retail lending segment, increased interest rate competition and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for the Bank to secure retail and SME customers with the credit quality and on credit terms necessary to achieve the Bank's business objectives in a commercially acceptable manner.

In addition, the Bank believes that regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. In the second half of 2015, the Government implemented measures to facilitate bank account portability of retail customers by requiring commercial banks to establish systems that allow retail customers to easily switch their bank accounts at one commercial bank to another and automatically transfer the automatic payment settings of their former accounts to the new ones. Such measures are expected to further intensify competition among financial institutions in Korea. The Bank also believes that foreign financial institutions, many of which have greater experience and resources than the Bank, will seek to compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in September 2015. Moreover, as part of the Government's plans to privatize Woori Finance Holdings Co., Ltd. (the former financial holding company of Woori Bank), certain subsidiaries of Woori Finance Holdings were sold to other financial institutions and Woori Finance Holdings itself was merged into Woori Bank in 2014. The Bank expects that consolidation in the financial industry will continue. The financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Bank. Increased competition and continuing consolidation may lead to decreased

margins, resulting in a material adverse impact on the Bank's future profitability. Accordingly, the Bank's results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

Difficult conditions in the global financial markets could adversely affect the Bank's results of operations and financial condition.

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

- the financial difficulties affecting many governments worldwide, in particular in southern Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as the possibility of increases in policy rates by the U.S. Federal Reserve and other central banks; and
- political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia.

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 the Bank's business, financial condition and results of operations.

The Bank is also exposed to adverse changes and volatility in global and Korean financial markets as a result of the Bank's liabilities and assets denominated in foreign currencies and the Bank's holdings of trading and investment securities, including structured products. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. See "Exchange Rates." A depreciation of the Won will increase the Bank's cost in Won of servicing the Bank's foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for the Bank. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which the Bank holds an interest. Such volatility has resulted in and may lead to further trading and valuation losses on the Bank's trading and investment securities portfolio as well as impairment losses on its investments accounted for under the equity method, including its non-controlling equity stake in JSC Bank CenterCredit, a Kazakhstan bank, the initial stake in which the Bank acquired in 2008. See "The Guarantor — Business — Capital Markets Activities and International Banking — International Banking."

The Bank's business may be materially and adversely affected by legal claims and regulatory actions against the Bank.

The Bank is subject to the risk of legal claims and regulatory actions in the ordinary course of its business, which may expose the Bank to substantial monetary damages and legal costs, injunctive relief, criminal and civil penalties, sanctions against the Bank's management and employees and regulatory restrictions on its operations, as well as significant reputational harm. See "The Guarantor — Business — Legal Proceedings."

The Bank is unable to predict the outcome of many of the legal claims and regulatory actions in which it is involved, and the scope of the claims or actions or the total amount in dispute in such matters may increase. Furthermore, adverse final determinations, decisions or resolutions in such

matters could encourage other parties to bring related claims and actions against the Bank. Accordingly, the outcome of current and future legal claims and regulatory actions, particularly those for which it is difficult to assess the maximum potential exposure or the ultimate adverse impact with any degree of certainty, may materially and adversely impact the Bank's business, reputation, results of operations and financial condition.

The Bank's risk management system may not be effective in mitigating risk and loss.

The Bank seeks to monitor and manage its risk exposure through a group-wide risk management platform, encompassing a multi-layered risk management governance structure, reporting and monitoring systems, early warning systems, credit risk management systems for the Bank's banking operations and other risk management infrastructure, using a variety of risk management strategies and techniques. See "The Guarantor — Risk Management." However, such risk management strategies and techniques employed by the Bank and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, and many of the Bank's risk management strategies and techniques have a basis in historical market behavior that may limit the effectiveness of such strategies and techniques in times of significant market stress or other unforeseen circumstances. Furthermore, the Bank's 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 the Bank to deal with such market conditions. In such circumstances, it may be difficult for the Bank to reduce its risk positions due to the activity of such other market participants.

A decline in the value of the collateral securing the Bank's loans and the Bank's inability to realize full collateral value may adversely affect its credit portfolio.

A substantial portion of the Bank's loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is the Bank's general policy to lend up to 40% to 80% of the appraised value of collateral (except in areas of high speculation designated by the Government where the Bank generally limits its lending to between 40% to 60% of the appraised value of collateral) and to periodically re-appraise its collateral, the downturn in the real estate market in Korea in recent years has resulted in declines in the value of the collateral securing the Bank's mortgage and home equity loans. If collateral values decline further in the future, they may not be sufficient to cover uncollectible amounts in respect of the Bank's secured loans. Any future declines in the value of the real estate or other collateral securing the Bank's loans, or its inability to obtain additional collateral in the event of such declines, could result in a deterioration in the Bank's asset quality and may require the Bank to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realized with respect to such collateral. The Bank cannot guarantee that it will be able to realize the full value on its collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of its security interest in collateral. The Bank's failure to recover the expected value of collateral could expose it to losses.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, the Bank may not be able to realize the full "marked-to-market" value of debt securities the Bank holds at the time of any sale of such securities.

As of December 31, 2015, the Bank held debt securities issued by Korean companies and financial institutions (other than those issued by Korea Housing Finance Corporation, the BOK and Korea Development Bank, which are government-owned or -controlled enterprises or financial

institutions) with a total carrying amount of ₩14,670 billion in the Bank's trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require the Bank to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on the Bank's statements of financial position 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 the Bank could realize in the event it elects to sell these securities. As a result, the Bank may not be able to realize the full "marked-to-market" value at the time of any such sale of these securities and thus may incur losses.

The Bank may be required to make transfers from its general banking operations to cover shortfalls in its guaranteed trust accounts, which could have an adverse effect on its results of operations.

The Bank manages a number of money trust accounts. Under Korean law, trust account assets of a bank are required to be segregated from the assets of that bank's general banking operations. Those assets are not available to satisfy the claims of a bank's depositors or other creditors of its general banking operations. For some of the trust accounts the Bank manages, the Bank has guaranteed either the principal amount of the investor's investment or the principal and a fixed rate of interest.

If, at any time, the income from the Bank's guaranteed trust accounts is not sufficient to pay any guaranteed amount, the Bank will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from the Bank's fees from such trust accounts and finally from funds transferred from the Bank's general banking operations. As of December 31, 2015, the Bank had ₩99 billion of special reserves in respect of trust accounts for which the Bank provided guarantees of principal. There was no transfer from general banking operations to cover deficiencies in guaranteed trust accounts in 2013, 2014 and 2015. However, the Bank may be required to make transfers from its general banking operations to cover shortfalls, if any, in its guaranteed trust accounts in the future. Such transfers may adversely impact the Bank's results of operations.

The Bank's operations have been, and will continue to be, subject to increasing and continually evolving cybersecurity and other technological risks.

With the proliferation of new technologies and the increasing use of the Internet and mobile devices to conduct financial transactions, the Bank's operations as a large financial institution have been, and will continue to be, subject to an increasing risk of cyber incidents relating to these activities, the nature of which is continually evolving. The Bank's computer systems, software and networks are subject to cyber incidents, such as disruptions, delays or other difficulties from its information technology system, computer viruses or other malicious codes, loss or destruction of data (including confidential client information), unauthorized access, account takeover attempts and cyber attacks. A significant portion of the Bank's daily operations relies on its information technology systems, including customer service, billing, the secure processing, storage and transmission of confidential and other information as well as the timely monitoring of a large number of complex transactions. Although the Bank has made substantial and continuous investments to build systems and defenses to address cybersecurity and other technological risks, there is no guarantee that such measures or any other measures can provide adequate security. In addition, because methods used to cause cyber attacks change frequently or, in some cases, are not recognized until launched, the Bank may be unable to implement effective preventive measures or proactively address these methods. Furthermore, these

cyber threats may arise from human error, accidental technological failure and third parties with whom the Bank does business. Although the Bank maintains insurance coverage that may cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. If the Bank were to be subject to a cyber incident, it could result in the disclosure of confidential client information, damage to its reputation with its customers and in the market, customer dissatisfaction, additional costs to the Bank, regulatory penalties, exposure to litigation and other financial losses to both the Bank and its customers, which could have an adverse effect on the Bank's business and results of operations.

A considerable increase in interest rates could decrease the value of the Bank's debt securities portfolio and raise its funding costs while reducing loan demand and the repayment ability of its borrowers, which, as a result, could adversely affect the Bank.

Interest rates in Korea have been subject to significant fluctuations in recent years. In an effort to stem inflation amid improved growth prospects, the BOK gradually increased its policy rate in 2010 and 2011 by a total of 125 basis points to 3.25%. However, the BOK reduced its policy rate to 2.00% through a series of reductions from 2012 to 2014 to support Korea's economy in light of the slowdown in Korea's growth and uncertain global economic prospects. In 2015, the BOK further reduced its policy rate to an unprecedented 1.50% amid deflationary concerns and interest rate cuts by central banks around the world. All else being equal, an increase in interest rates in the future could lead to a decline in the value of the Bank's portfolio of debt securities, which generally pay interest based on a fixed rate. A sustained increase in interest rates will also raise the Bank's funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require the Bank to re-balance its asset portfolio and its liabilities in order to minimize the risk of potential mismatches and maintain its profitability.

In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of the Bank's corporate and retail borrowers, which in turn may lead to a deterioration in the Bank's credit portfolio. Since most of the Bank's retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of the Bank's retail and corporate borrowers and could adversely affect their ability to make payments on their outstanding loans.

The Bank's funding is highly dependent on short-term deposits, which dependence may adversely affect the Bank's operations.

The Bank meets a significant amount of its funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2015, approximately 94.4% of the Bank's deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of the Bank's customer deposits have been rolled over upon maturity. The Bank cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of the Bank's short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, the Bank's liquidity position could be adversely affected. The Bank may also be required to seek more expensive sources of short-term and long-term funding to finance its operations.

The Bank may be required to raise additional capital if its capital adequacy ratio deteriorates or the applicable capital requirements change in the future, but the Bank may not be able to do so on favorable terms or at all.

Under the capital adequacy requirements of the FSC, the Bank is required to maintain a minimum common equity Tier I capital adequacy ratio of 4.5%, Tier I capital adequacy ratio of 6.0%

and combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis from January 1, 2015. As of December 31, 2015, the Bank's common equity Tier I capital, Tier I capital and combined Tier I and Tier II capital adequacy ratios were 13.74%, 13.74% and 16.01%, respectively, all of which exceeded the minimum levels required by the FSC. However, the Bank's capital base and capital adequacy ratios may deteriorate in the future if its results of operations or financial condition deteriorates for any reason, including as a result of a deterioration in the asset quality of the Bank's retail loans and loans to SMEs, or if the Bank is not able to deploy its funding into suitably low-risk assets.

The current capital adequacy requirements of the FSC are derived from a new set of bank capital measures, referred to as Basel III, which the Basel Committee on Banking Supervision initially introduced in 2009 and began phasing in starting from 2013. Commencing in July 2013, the FSC promulgated a series of amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of common equity Tier I capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5% starting in 2016, which will be determined on a quarterly basis by the FSC. Furthermore, the Bank was designated as one of five domestic systemically important banks for 2016 by the FSC and may be subject to an additional capital requirement of 0.25% in 2016, if deemed necessary, with such potential requirement to increase in stages to 1.0% by 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including the Bank. See "Government Regulation — Regulation and Supervision of the Guarantor — Legal and Regulatory Framework in Korea — Capital Adequacy."

The Bank may be required to obtain additional capital in the future in order to remain in compliance with more stringent capital adequacy and other regulatory requirements. However, the Bank may not be able to obtain additional capital on favorable terms, or at all. The Bank's ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that the Bank fails to comply with applicable capital adequacy ratio or other regulatory requirements in the future, Korean regulatory authorities may impose penalties on the Bank ranging from a warning to suspension or revocation of the Bank's banking license.

Reductions in the Bank's credit ratings could, among other things, increase the cost of borrowing funds and may adversely impact the Bank's ability to raise new funds or refinance maturing debt on commercially acceptable terms.

Credit ratings are an indicator of the Bank's financial and liquidity profile. Among other factors, the Bank's credit ratings are based on its financial strength, the credit quality of and concentrations in the Bank's loan portfolio, the level and volatility of its earnings, its capital adequacy, the quality of its management, the liquidity of its balance sheet, the availability of a significant base of core and retail deposits, and its ability to access a broad range of funding sources. Any reduction in the Bank's credit ratings could adversely affect its liquidity and competitive position, increase its borrowing costs, and limit its access to the capital markets and funding sources on commercially acceptable terms. Such events could adversely affect the Bank's financial condition and results of operations. A reduction in the Bank's ratings could also adversely affect the ratings of the Bonds.

Labor unrest in Korea may adversely affect the Bank's operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate increased from 3.1% in 2013 to 3.5% in 2014 and 3.6% in 2015. Future increases in unemployment and any resulting labor unrest in the future could adversely affect the Bank's operations, as well as the operations of many of the Bank's customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on the Bank's financial condition and results of operations.

The Government may promote lending and financial support by the Korean financial industry to certain types of borrowers as a matter of policy, which financial institutions, including the Bank, may decide to follow.

Through its policies and recommendations, the Government has promoted and, as a matter of policy, may continue to attempt to promote lending by the Korean financial industry to particular types of borrowers. For example, the Government has in the past provided and may continue to provide policy loans, which encourage lending to particular types of borrowers. The Government has generally done this by identifying sectors of the economy it wishes to promote and making low-interest funding available to financial institutions that may voluntarily choose to lend to these sectors. The Government has in this manner provided policy loans intended to promote mortgage lending to low-income individuals and lending to SMEs. All loans or credits the Bank chooses to make pursuant to these policy loans would be subject to review in accordance with its credit approval procedures. However, the availability of policy loans may influence the Bank to lend to certain sectors or in a manner in which it otherwise would not have done in the absence of such loans from the Government.

In the past, the Government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of SMEs in Korea as a result of the global financial crisis commencing in the second half of 2008 and adverse conditions in the Korean economy affecting consumers, the Government introduced measures intended to encourage Korean banks to provide financial support to SMEs and retail borrowers. See “— Future changes in market conditions as well as other factors may lead to increases in delinquency levels of the Bank's retail loan portfolio” and “— The Bank has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Bank's asset quality and have an adverse impact on the Bank.” The Government may in the future request financial institutions in Korea, including the Bank, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including the Bank, may decide to accept. The Bank may incur costs or losses as a result of providing such financial support.

The FSC may impose burdensome measures on the Bank if the FSC deems the Bank to be financially unsound.

If the FSC deems the Bank's financial condition to be unsound, or if the Bank fails to meet applicable regulatory standards, such as minimum capital adequacy and liquidity ratios, the FSC may order or recommend, among other things:

- capital increases or reductions;
- stock cancellations or consolidations;

- transfers of businesses;
- sales of assets;
- closures of subsidiaries or branch offices;
- mergers with other financial institutions; and
- suspensions of a part of the Bank's business operations.

If any of these measures is imposed on the Bank by the FSC, it could damage the Bank's business, results of operations and financial condition.

Risks Related to the Issuer

We operate in a highly competitive market, and our failure to successfully compete would adversely affect our business.

We face significant competition in almost every aspect of our business. We primarily compete for the time and attention of our users with providers of other forms of mobile, online and in-home communication, entertainment and information services. We face competition from game companies, mobile telecommunications companies, e-commerce companies, music streaming companies and other Internet-related companies that offer products and services that may compete with specific features of services offered on our Kakao mobile platform or Daum website portal. We compete directly with other major Korean Internet portals such as Naver, to provide comprehensive mobile and online services to users. In addition, we compete with international competitors such as Facebook and Google, which offer a variety of social network services and products as well as online advertising services. We also compete with traditional and online media businesses for a share of advertisers' budgets and in the development of tools and systems for managing and optimizing advertising campaigns. As we introduce new services and our existing services evolve, or as other companies introduce new products and services, we may become subject to additional competition.

In particular, competition in the mobile game market in Korea is intense and it may become more challenging for us to retain existing users and attract new users as competition from other online game operators, both based in Korea as well as overseas, is likely to increase in the future.

In addition, although we operate the leading mobile messaging service in Korea, the mobile messaging market outside of Korea is dominated by various companies, many of which have greater financial resources and substantially larger user bases. For example, we face competition from mobile messaging service providers such as Facebook's Whatsapp, Tencent's WeChat and Naver's LINE Messenger.

Our competitors may develop products, features or services that are similar to ours or that achieve greater market acceptance, may undertake more far-reaching and successful product development efforts or marketing campaigns, or may adopt more aggressive pricing policies. International scale or other advantages may allow our competitors to respond more effectively than us to a rapidly evolving environment in the mobile Internet industry, including industry consolidation that may result in enhanced capabilities of our competitors. In addition, platform partners may use information shared by our users through the Kakao mobile platform in order to develop products or features that compete with ours. Certain of our competitors could also use strong positions in one or more segments or markets to gain competitive advantages over us in areas where we operate, by

integrating competing mobile applications or features into products they control such as social networking platforms or mobile operating systems for smartphones and tablets; by making strategic acquisitions; or by making access to our services more difficult. If we fail to successfully compete, it could result in a decrease in user numbers and user traffic over our platforms, which may negatively affect our business, financial condition and results of operations.

If we fail to retain users or increase the level of engagement of our user base, our business and financial performance may be significantly harmed.

Our business is dependent on our ability to attract users and derive revenue from user traffic, and the size of our user base and the level of its engagement are critical to our success. We currently generate substantially all of our revenues in Korea and we expect to continue to do so in the foreseeable future. Accordingly, our financial performance has been and will continue to be significantly determined by our success in retaining and engaging active users in Korea, our primary market. If we fail to develop services that are compatible with current and future mobile devices popular in Korea, or if the services we develop are not widely accepted and used by Korean mobile device users, we may not be able to attract or retain users or otherwise maintain or increase the frequency, duration or level of their engagement, which may render our platforms less attractive to advertisers and users.

Our user retention, growth or engagement levels could also be negatively affected if:

- we are unable to provide a compelling and intuitive user experience and environment, particularly relating to the quality, volume, design and layout of the content that we offer on the Kakao mobile platform;
- we fail to maintain our brand image or our reputation is damaged;
- we are unable to make our products and services available in a timely and reliable manner or our user experience is negatively affected due to technical or other problems;
- we fail to provide adequate customer service to users or advertisers or maintain relationships with key platform partners such as mobile game developers;
- adverse changes in our products or services are mandated by legislation, regulatory authorities or legal proceedings;
- user concerns increase in relation to privacy and information sharing, safety or security; or
- users increasingly engage with competing products or services, particularly communication tools, media and content and games.

If we fail to retain users or increase the level of engagement of our user base, our business, financial condition and results of operations may be negatively affected.

We may lose advertisers or our advertisers may reduce their spending levels.

A substantial portion of our revenues is generated from online advertising products and services offered to clients through our Kakao mobile platform and Daum website portal. Demand for our advertising products and services is driven by advertising spending levels of our advertising clients in Korea, which are influenced by the pace of overall economic growth. Accordingly, Korean economic

conditions impact our business and financial performance. Economic uncertainty, turmoil in the credit markets or a contraction in the availability of credit may make it more difficult for businesses to meet their working capital requirements and could lead advertisers to seek to change their commercial relationship with their vendors, including us. In the past, some advertisers have responded to weak economic and financial conditions and national disasters by reducing their advertising budgets, which include discretionary components that are relatively easier to reduce in the short term than other operating expenses. For example, the Sewol ferry accident that occurred in April 2014 had a negative impact on the general advertising spending level of Korean companies in the remainder of 2014.

Furthermore, the segment of advertising services involving Internet and mobile media platforms, which are subject to continual development and integration of interactive media technologies, is relatively nascent and continues to evolve. As a result, we may need to incur development and acquisition costs or hire new personnel in order to keep pace with new market trends, but we may not have the financial and other resources necessary to fund and implement these development or acquisition projects or to hire suitable personnel. In addition, some of our advertisers may view our advertising products as experimental or unproven. If we fail to develop and introduce new services on a timely and cost-effective basis, the demand for our advertising products and services may decrease and we may not be able to attract advertisers.

As is customary in the industry, we generally do not have exclusive or long-term agreements with our advertisers. Many of our advertisers spend only a relatively small portion of their overall advertising budget with us. Advertisers may discontinue their use of our advertising products and services, or they may reduce the prices they are willing to pay for such products and services, if we do not deliver advertisements and other commercial content in an effective manner, or if they do not believe that their investment in our advertising products and services will generate a competitive return relative to alternative methods of advertising due to a variety of factors, which may include:

- decreases in the number of our active users and their engagement levels;
- our inability to improve our analytics and measurement solutions that demonstrate the value of advertising online through our Kakao mobile platform or Daum website portal; and
- the impact of new technologies that could block or obscure the display of some types of advertisements and other commercial content.

These or other developments could result in a reduction in demand for our advertising products and services, which could adversely affect our business, financial condition and results of operations.

We face uncertainties regarding the growth of the mobile game industry and our ability to consistently offer successful mobile games.

We generate a significant portion of our revenues from the mobile game industry, which is rapidly evolving. The continued growth of the mobile game industry is subject to a significant degree of uncertainty, particularly in Korea considering the very high penetration rate of smartphones. Our future results of operations associated with this industry will depend on numerous factors, including:

- whether existing or new mobile games will continue to generate demand among current or additional segments of users of our mobile platform;
- laws, rules, regulations and policies affecting the mobile game industry;

- general economic conditions, particularly economic conditions that impact the level of discretionary consumer spending;
- changes in consumer demographics, public tastes and preferences; and
- the availability and popularity of other forms of entertainment.

In order for our mobile game business to continue to succeed, we must develop, acquire, co-develop or license new mobile games that are attractive to users before our existing mobile games reach the end of their commercial lifespans. It is difficult to anticipate user preferences or demand, particularly as we procure games in new genres or targeting new segments or markets, and constant enhancement requires the investment of significant resources. If we fail to offer attractive in-game items, make unpopular changes to existing in-game items or offer games that do not encourage purchases of in-game items or upgrades of game versions, or if we fail to successfully launch new games that attract and retain a significant number of users, our mobile game revenues will decrease and our business, financial condition and results of operations could be materially harmed.

Historically, we have relied on third-party developers and publishers for mobile games offered on our game platforms, and we believe that maintaining successful partnerships with, and the ability to attract and select from, third-party developers and publishers remain critical to our success. Existing and prospective mobile game developers may not be successful in developing games that create and maintain user engagement. There is no assurance that we can maintain good relationships with third-party developers or publishers or attract new third-party developers. Furthermore, we have recently begun to build our own mobile game development and publishing capabilities, including through our acquisition in 2015 of NZIN, a game publisher, and subsequent launch of our game publishing brand, Kakao Game S. However, we may not be able to anticipate changing consumer tastes and preferences, adopt new technologies, attract, retain and motivate talented mobile game developers and effectively execute mobile game development plans. There is no assurance that we can successfully develop our in-house mobile game development and publishing capabilities. Our failure to maintain good relationships with third-party developers and publishers or to develop in-house development and publishing capabilities could adversely affect our business, financial condition and results of operations.

Our business is subject to complex and evolving laws and regulations, many of which are subject to change and uncertain interpretation.

We are subject to a variety of laws and regulations in Korea that involve matters central to our business, including privacy and data protection, rights of publicity, content and pricing regulation, advertising, protection of personal information, intellectual property, protection of minors, consumer protection, competition and taxation. See “Government Regulation — Regulation of the Issuer and LOEN” for a summary of certain laws and regulations in Korea that are applicable to us. Many of these laws and regulations are still evolving and could be interpreted or applied in ways that could limit our business, particularly in the new and rapidly evolving industries in which we operate. The introduction of new services or products in Korea and the expansion of our business to other countries may subject us to additional laws and regulations. For example, we have invested in a business consortium that plans to offer Internet banking services in Korea, which will be subject to Internet banking regulations that continue to evolve.

From time to time, we receive formal and informal inquiries from governmental authorities and regulators regarding our compliance with laws and regulations. We may become subject to investigations, inquiries, actions, and audits in Korea and other jurisdictions, particularly in the areas of consumer and data protection, as we continue to grow and expand our operations. Orders issued by,

or inquiries or enforcement actions initiated by, governmental or regulatory authorities could cause us to incur substantial costs, expose us to unanticipated civil and criminal liability or penalties (including substantial monetary fines), or require us to change our business practices in a manner materially adverse to our business. Additionally, if third parties we work with, such as advertisers or platform partners, violate applicable laws or our policies, such violations may also put our users' information at risk and could in turn have an adverse effect on our business. Furthermore, it is difficult to predict how existing laws and regulations, as well as new laws and regulations to which we may become subject, will be applied to our business, and it is possible that they may be interpreted and applied in a manner that is inconsistent with our practices. Existing and new laws and regulations can be costly to comply with and can delay or impede the development of new services and products, result in negative publicity, increase our operating costs, require significant time and attention of our management and technical personnel and subject us to inquiries or investigations, claims or remedies, including fines or demands that we modify or cease existing business practices, any of which could have a material adverse effect on our business, financial condition or results of operations.

We operate in a rapidly evolving environment and we may not be able to launch new services and products in a timely and cost-effective manner, and any new services and products we develop may expose us to new risks.

We operate in a dynamic and evolving industry with the rapid emergence of new technologies and new services and products. Our success depends greatly on our ability to introduce new services and products to diversify our portfolio, adapt to new technologies, appeal to changing consumer trends and preferences, and generate additional revenues. From time to time, we may develop and introduce services and products in areas where we have little or no prior development or operating experience. For example, as part of our efforts to provide innovative services that address evolving consumer trends and preferences, we launched Kakao Pay, a mobile payment service, in September 2014 and Bank Wallet Kakao, a digital mobile wallet service, in November 2014. In March 2015, we launched Kakao Taxi, which is a free O2O mobile application servicing both taxi drivers and taxi passengers. On March 16, 2016, we acquired a 76.4% interest in LOEN, a leading music entertainment company in Korea. See “— We recently acquired a 76.4% interest in LOEN, which is subject to a number of risks.”

Some of our strategic initiatives may not directly or immediately generate revenues, but we expect they will enhance our attractiveness to users, platform partners and advertisers as well as contribute to increasing our active user base. Our new services and products may bring us into contact, directly or indirectly, with entities that are not within our traditional customer base or result in competition with entities that are our existing business partners. Such business activities may expose us to new risks, including additional regulatory scrutiny as well as credit-related and other operational risks. There can be no assurance that we will succeed in developing new services and products that eventually become widely accepted, or that we will be able to timely release services and products that are commercially viable. Our inability to do so would have an adverse impact on our business, financial condition and results of operations.

We may fail to fully realize the anticipated benefits of our acquisitions and investments.

From time to time, we may opportunistically acquire or invest in, or merge with, companies in related industries, aiming to capitalize over time on the combined strengths of our existing business and that of the target entities, including in terms of technologies, user base and cost efficiencies, as well as expanding into new businesses or markets. For example, we were formed through the merger of Old Kakao with and into Daum on October 1, 2014, and on March 16, 2016, we acquired a 76.4% interest in LOEN, a leading music entertainment company in Korea, which became our consolidated subsidiary. The success of our mergers, acquisitions and investments will depend, in part, on our

ability to identify and evaluate any material risks involved in any particular transaction and realize the growth opportunities and anticipated synergies. The realization of the anticipated benefits may be impeded, delayed or reduced as a result of numerous additional factors, some of which are outside our control. These factors include the following:

- inability to maintain existing users or clients of the merged, acquired or invested entities;
- unforeseen or latent risks or liabilities in the operations of the merged, acquired or invested entities;
- diversion of management time and focus from operating our business in order to address merger, acquisition, investment and integration challenges;
- difficulties in managing the integration of the merged, acquired or invested businesses, including the harmonization of compensation levels, corporate cultures and systems and the implementation of a coordinated business plan;
- difficulties in integrating management teams;
- difficulties in putting in place effective cost-cutting measures;
- difficulties in retaining key personnel; and
- the possibility of labor unrest.

If we face difficulties in integrating or managing our merged, acquired or invested businesses, we may not achieve the anticipated benefits in connection with the mergers, acquisitions or investments. If we fail to achieve the anticipated benefits, or if the costs of achieving them are substantially greater than we anticipate, our business, financial condition and results of operations may be adversely affected. Future mergers, acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, contingent liabilities, amortization expenses or incremental operating expenses.

We have a substantial amount of debt, which may limit cash flow available for our operations and could adversely affect our business and performance.

We have a substantial amount of debt, which could have a material adverse effect on our business, financial condition and results of operations. In particular, we have incurred a substantial amount of debt since December 31, 2015, including debt we incurred to finance our acquisition of an aggregate of 76.4% of the outstanding Shares, as a result of which LOEN became a consolidated subsidiary of our Company. Among other things, our indebtedness may:

- limit our ability to obtain additional financing for working capital, capital expenditures, strategic acquisitions and general corporate purposes;
- require us to dedicate a substantial portion of our cash flow to service our debt, which will reduce funds available for other business purposes, such as capital expenditures, investments or acquisitions;
- adversely affect our credit rating and result in higher interest expense if the rates at which we are able to borrow increase in the future;

- limit our flexibility in planning for or reacting to changes in the markets in which we compete;
- place us at a competitive disadvantage relative to our competitors with less indebtedness;
- render us more vulnerable to general adverse economic and industry conditions; and
- make it more difficult for us to satisfy our financial obligations or to refinance maturing indebtedness.

Subject to compliance with various covenants imposed by agreements governing our indebtedness, we may incur additional indebtedness from time to time, including indebtedness to finance any future acquisitions, which could exacerbate the risks described above.

Our quarterly operating results may be subject to significant fluctuations and may not meet our or public market expectations.

We may experience significant fluctuations in our quarterly operating results due to a variety of factors, many of which are beyond our control, including the timing of new service or feature launches by us or our competitors, seasonality, regulatory changes, pricing changes and changes in the macroeconomic environment. Any of these or other factors could cause our results of operations to fluctuate from quarter to quarter. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly revenues and costs and expenses as a percentage of our revenues may differ significantly from historical amounts. In addition, our results of operations for the first quarter of 2016 or any future quarter may not meet our expectations or the expectations of public market analysts and investors.

Our transactions with our subsidiaries, affiliates and other member companies of the Kakao Group are restricted under Korean fair trade regulations.

On April 1, 2016, we and a group of companies affiliated with us were designated as a large business group by the Korea Fair Trade Commission. As a result, our business relationships and transactions with our subsidiaries, affiliates and other companies within the Kakao Group 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 are also subject to the fair trade regulations limiting cross-guarantees of debt and cross-shareholdings among member companies of the Kakao Group. On August 13, 2013, the Monopoly Regulation and Fair Trade Act was amended to strengthen restrictions on transactions between certain affiliated group entities, which amendments became effective on February 14, 2014. See “Government Regulation — Regulation of the Issuer and LOEN — Regulations under the Monopoly Regulation and Fair Trade Act.” In addition, our material business transactions with our subsidiaries, affiliates and member companies of the Kakao Group are subject to approval by our board of directors and require more stringent and expedited public disclosure. Any future determinations by the Korea Fair Trade Commission that we have engaged in transactions that violate Korean fair trade laws and regulations may result in fines or other punitive measures and may have a material adverse effect on our reputation and our business.

We recently acquired a 76.4% interest in LOEN, which is subject to a number of risks.

On March 16, 2016, we completed the purchase of 61.4% and 15.0% of the outstanding Shares from SIH and SK Planet (a wholly-owned subsidiary of SK Telecom), respectively, as a result

of which LOEN became our consolidated subsidiary. LOEN is a leading music entertainment company in Korea, offering a wide range of services that cover key components of the music industry value chain, including online music services, contents distribution and contents production. See “LOEN.” Since LOEN has become our consolidated subsidiary, the existence or exacerbation of any risks related to LOEN may have a material adverse effect on our business, financial condition and results of operations. In addition, LOEN is subject to many of the risks described above relating to mobile and online business operations. See “— Risks Related to LOEN.”

Risks Related to LOEN

The music entertainment industry in Korea is highly competitive, and LOEN’s failure to successfully compete would adversely affect its business.

The music entertainment industry in Korea is highly competitive and changes rapidly based on evolving consumer preferences as well as new technological developments.

LOEN competes with various companies in each of its business areas as follows:

- **Online music services** — MelOn competes primarily with other online music service providers in Korea for users and sales of music content to them. Competition is based a number of factors, including overall quality of the user experience, breadth and depth of available music content, ease of use, price, accessibility, attractiveness of features, brand awareness and reputation. The principal competitors of MelOn include M.net, Genie, Bugs! and Soribada. In recent years, due to the growth in music piracy, MelOn has also been forced to compete with illegal online music content channels, such as unauthorized peer-to-peer file-sharing websites.
- **Contents distribution** — LOEN Music competes primarily with other music distribution companies in Korea for contracts with production companies for online and offline distribution of music content, Competition is based mainly on reputation, strength of distribution channels and price. The principal competitors of LOEN Music are M.net and KT Music.
- **Contents production** — LOEN’s production companies compete mainly with other production companies in Korea in signing and managing recording artists, as well as actors and other entertainment industry personnel, and in producing and marketing music content to music distributors. Competition is based primarily on reputation, strength of production and management capabilities, ability to identify promising new artists and the attractiveness of contract terms offered to artists. The principal competitors of LOEN’s production companies include other leading Korean production companies such as SM Entertainment, YG Entertainment and JYP Entertainment, as well as mid-sized and smaller players in the industry that specialize in particular music genres.

In addition, LOEN and other music entertainment companies in Korea compete, to a lesser extent, for users and sales with alternative forms of entertainment, content and leisure activities, including cable, satellite and Internet-protocol television, films on DVD and digital format, the Internet, mobile applications, online games and live performances. Providers of these alternative forms of entertainment may also decide to enter the music entertainment industry.

LOEN’s competitors may develop services or features or acquire music content that is similar to LOEN’s or that achieves greater market acceptance, may undertake more far-reaching and

successful distribution, production or marketing campaigns, or may adopt more aggressive pricing policies. In addition, while large-scale international online music service providers such as Apple or Google do not currently have a substantial user base in Korea, they may seek to achieve greater penetration in the Korean market, either on their own or in partnership with domestic music or online companies. Current or future competitors may be able to respond more effectively than LOEN to a rapidly evolving environment in the music entertainment industry, including technological developments or industry consolidation that may result in increased competition. If LOEN fails to successfully compete, it could experience decreases in subscriber numbers and usage, reduced access to attractive music content or loss of managed recording artists, which may negatively affect LOEN's business, financial condition and results of operations.

LOEN may not be able to adapt to changes in the online retail music market or launch new content and features in a timely and cost-effective manner.

Over the past decade, the online retail music market in Korea has undergone rapid and dramatic changes. In recent years, revenues from music downloading services have been declining while revenues from paid and advertising-supported music streaming services have been increasing, although average revenue per user from music streaming services is generally lower than average revenue per user from music downloading services. As a result, LOEN will need to continue to successfully navigate the changing music marketplace and secure rights to stream attractive new music content on reasonable economic terms. In addition, in response to rapidly evolving user preferences and new technological developments, LOEN has sought to offer to its MelOn subscribers a greater variety of music content as well as new features designed to enhance their user experience, and its ability to continue to attract and retain subscribers will depend in part on its ability to continue to do so at reasonable costs. If subscribers do not perceive LOEN's services or music content to be in keeping with the latest trends, or if LOEN adjusts its services, content or pricing in a manner that is not favorably received by them, LOEN may not be able to attract and retain subscribers or generate adequate usage from subscribers, which could have a material adverse effect on its business, financial condition and results of operations.

Fee arrangements in the Korean music industry are subject to significant regulation.

LOEN obtains music content for its MelOn online music service both internally from its contents distribution business as well as from third-party music distributors in Korea and abroad, and pays fees for such content based on its sales. In Korea, fee arrangements between online music service providers and music distributors are subject to regulation by the Ministry of Culture, Sports and Tourism, which establishes regulatory guidelines with respect to the payment by online music service providers to music distributors (for the benefit of artists, producers and other music industry participants) of specified minimum royalty fees and profit-sharing fees for music downloaded or streamed by subscribers. In December 2015, the Ministry of Culture, Sports and Tourism announced changes to the applicable regulatory guidelines, which became effective in February 2016 (subject to certain grace periods), pursuant to which the levels of minimum royalty and profit-sharing fees payable by online music service providers were increased. Such mandatory increase in the fee levels payable by online music service providers may have an adverse effect on LOEN's profit margins, unless it is able to correspondingly increase the music downloading and streaming charges payable to it by its subscribers, which may be difficult due to competitive and reputational factors. The Ministry of Culture, Sports and Tourism may decide to implement similar unfavorable changes to the applicable regulatory guidelines in the future, which may lead to a decrease in LOEN's profitability, or damage to its competitive position and attractiveness to subscribers, or both, and could therefore have a material adverse effect on its business, financial condition and results of operations.

LOEN's MelOn online music streaming and downloading service relies on a number of third-party music content providers.

LOEN believes that the breadth and variety of MelOn's music content offerings are key elements in maintaining and increasing the size and level of engagement of its MelOn user base. LOEN relies on a number of third parties (in addition to its contents distribution operations) to provide music content in order to make MelOn more attractive to users. There can be no assurance that LOEN's existing relationships with third-party music content providers will be maintained or result in sustainable business partnerships, successful service offerings and an acceptable level of user traffic on MelOn. Furthermore, most of such third-party music content is also provided by the relevant music content providers to, and available from, other music streaming and downloading service companies. If other online music streaming and downloading service providers present the same or similar content in a superior manner, this could reduce LOEN's user base and traffic for MelOn, which could have a material adverse effect on its business, financial condition and results of operations.

LOEN depends on mobile telecommunications and Internet infrastructure services for reliable user accessibility to its MelOn online music streaming and downloading services.

LOEN's MelOn online music streaming and downloading services depend on the ability of users to access mobile telecommunications services and the Internet. Currently, this access is provided by companies that have significant market power in the mobile, broadband and Internet access marketplaces, including incumbent mobile telecommunications companies, telephone companies, cable companies, government-owned service providers, device manufacturers and operating system providers, any of whom could take actions that degrade, disrupt or increase the cost of user access to LOEN's MelOn services, which would, in turn, negatively impact its business. The adoption of any laws or regulations that adversely affect the growth, popularity or use of mobile devices or the Internet or disruption of LOEN's MelOn services for any non-technical reasons could decrease the demand for, or the usage of, such services, increase LOEN's costs and adversely affect its business, financial condition and results of operations. LOEN also relies on other companies to maintain reliable network systems that provide adequate speed, data capacity and security to LOEN and its MelOn users. As mobile devices and the Internet continue to experience growth in the number of users, frequency of use and amount of data transmitted, the mobile telecommunications and Internet infrastructure that LOEN and its MelOn users rely on may be unable to support the demands placed upon them. The failure of the operations of mobile telecommunications or Internet infrastructure services that LOEN or its MelOn users rely on, even for a short period of time, could undermine LOEN's MelOn operations, and its business, financial condition and results of operations could be adversely affected.

LOEN's marketing efforts may be adversely impacted if it is unable to maintain any of its key strategic partnerships, including with SK Telecom.

LOEN pursues various marketing opportunities jointly with SK Telecom (the parent company of SK Planet, which previously held a 15.0% interest in LOEN) to further strengthen its subscriber base. See "LOEN — Marketing." From time to time, LOEN also enters into partnership arrangements with other third-parties, including manufacturers of mobile devices and other consumer electronic products, to cross-market each other's services and products. If LOEN is unable maintain a good relationship with SK Telecom or its other key strategic partners, or the products of such strategic partners fail to gain acceptance among customers, LOEN's marketing efforts may be adversely impacted.

LOEN's content distribution business relies on a number of content production companies.

In connection with its contents distribution business, LOEN enters into arrangements with various production companies (including those that are a part of its contents production operations) for online and offline distribution of music content. LOEN's contents distribution business is dependent upon its commercial relationships with Korea's leading production companies, and the loss of key relationships could result in the loss of LOEN's rights to distribute recordings of artists represented by such production companies. There is no guarantee that LOEN will be able to maintain its existing distribution relationships with production companies, or enter into new relationships with additional production companies, on commercially acceptable terms, if at all, and its inability to do so may negatively impact its business, financial condition and results of operations.

LOEN's contents production business may be adversely affected by risks relating to the discovery and nurturing of new recording artists.

LOEN's contents production business is dependent on identifying promising recording artists and entering into management contracts with them, collaborating with such artists to produce audio and video recordings of their work, and marketing and selling such recordings to music distributors. LOEN also provides general management services for artists, including in respect of advertising, merchandising, sponsorships, touring and other promotional activities. Accordingly, LOEN's competitive position as a producer is dependent on its ability to continue to attract and develop artists whose work can achieve a high degree of mass appeal. LOEN's contents production business may be adversely affected if it is unable to identify and retain such artists under terms that are economically attractive to LOEN.

LOEN customarily provides up-front advance payments to artists, which are recoupable from future royalties and other commissions otherwise payable to the artists. LOEN typically pays costs associated with the training of new artists as well as production costs of albums and music videos. There is no guarantee, however, that LOEN's revenues from sales of an artist's recordings and its management activities with respect to the artist will be sufficient to cover such advances and training and production costs paid by LOEN with respect to the artist, even if the artist is successful. In addition, LOEN's expected revenue stream with respect to an artist it has identified and trained may be cut short as a result of a sudden decline in the artist's popularity, an interruption to his or her career due to unforeseen circumstances or the termination by the artist of his or her contract prior to its expiration.

LOEN depends on its senior management and other key personnel, and its business and operations may be negatively affected if it is unable to attract, retain and motivate key personnel.

LOEN's success depends on the continuous effort and services of its senior management and other key personnel, and LOEN relies on their expertise in its business operations, including the development of new services and features and maintenance of its relationships with strategic partners. If one or more of its key personnel are unable or unwilling to continue in their present positions, whether due to retirement, loss to competitors or other causes, LOEN may not be able to easily replace them and may incur additional expenses to recruit qualified new personnel, which could prevent LOEN from effectively executing its business strategy, cause it to lose key platform partner relationships, or otherwise negatively affect LOEN's business and operations.

LOEN may not be able to effectively manage its growth.

LOEN has limited operational, administrative and financial resources and these resources may be inadequate to effectively manage the growth that LOEN has experienced to date in its personnel

and operations or that it seeks to achieve in the future. LOEN's present and future success will continue to depend on its ability to attract and retain highly skilled personnel, particularly engineers, marketers and producers. There is no assurance that LOEN will be able to successfully attract, assimilate and retain the personnel it needs to succeed. As competition for talent intensifies, it may be more difficult for LOEN to hire, motivate and retain highly skilled personnel. If LOEN is unable to attract additional highly skilled personnel or retain or motivate its existing personnel, LOEN may not be able to grow effectively. If LOEN fails to meet its hiring needs and successfully integrate its new hires, LOEN's employee morale, productivity and retention could suffer.

As LOEN continues to grow, it is subject to the challenges of integrating, developing and motivating a growing employee base, and to the risks of over-expanding its operating infrastructure. As LOEN's organization continues to grow and it is required to implement more complex organizational management structures, LOEN may find it increasingly difficult to maintain the strengths of its corporate culture. Continued growth could strain LOEN's ability to maintain reliable service levels for its users, develop and improve its operational, financial, legal and management controls, and enhance its reporting systems and procedures. Managing LOEN's growth will require significant expenditures and allocation of valuable management resources. If LOEN fails to achieve the necessary level of efficiency in its organization as it grows, its business, financial condition and results of operations could be harmed.

LOEN may experience disruptions in its MelOn services caused by system failures or changes, or by its failure to timely and effectively expand and adapt its technology and infrastructure.

LOEN's ability to attract, retain, and serve MelOn users is dependent in large part upon the reliable performance of its underlying technical infrastructure. LOEN's systems may not be designed with adequate reliability and redundancy to avoid performance delays or outages that could be harmful to its business. LOEN has experienced, and may in the future experience, service disruptions, outages and other performance problems due to a variety of factors, including capacity constraints due to temporary surges in simultaneous access of its services, hardware failure, computer viruses, infrastructure changes, human or software errors, denial of service or fraud or security attacks. LOEN's technical infrastructure is also vulnerable to the risk of damage from natural disasters, such as floods and typhoons, as well as from acts of terrorism or other criminal acts. In addition, LOEN's services incorporate software that is highly technical and complex, and such software has contained, and may now or in the future contain, undetected errors, bugs or vulnerabilities.

As the size of its MelOn user base increases and as its users access increasing volumes of content, including music, videos and other streaming media, LOEN may be required to expand and adapt its technology and infrastructure in order to continue to reliably store and deliver such content. It may become increasingly difficult to maintain and improve the performance of LOEN's MelOn services, especially during peak usage times, as its services become more complex and its user traffic increases. In addition, LOEN cannot provide assurance that it will be able to expand its technical infrastructure to meet growing user demand in a timely manner, or on favorable economic terms. If LOEN's MelOn users are unable to readily access its services or access is disrupted, users may seek other online music service providers instead, and may not return to MelOn or use MelOn as often in the future. This would negatively impact LOEN's ability to attract users, strategic partners and content providers and increase engagement of its MelOn users. To the extent that LOEN does not effectively address capacity constraints, upgrade its systems as needed or continually develop its technology and infrastructure to accommodate actual and anticipated changes in the needs of its MelOn users, LOEN's business, financial condition and results of operations may be harmed.

LOEN could face liability or its reputation could be damaged if it fails to protect user or content provider data or if its security measures are breached.

LOEN's online music services involve the storage and transmission of users' and content providers' electronic information on and through its technical infrastructure. This infrastructure is potentially vulnerable to computer viruses, break-ins and other technical problems, which could lead to leakage or dissemination of sensitive or confidential information or proprietary content of its users and content providers. If any person, including any of LOEN's employees, negligently disregards or intentionally breaches LOEN's established controls with respect to such information or content or otherwise mismanages or misappropriates that information or content, LOEN could be subject to various legal liabilities and sanctions, including monetary damages, fines or criminal prosecution. Although LOEN has not experienced any material instances of cyber-attacks where an unauthorized party was able to obtain access to its data or its users' or content providers' data, there can be no assurance that it will not be vulnerable to cyber-attacks in the future. LOEN's security measures may also be breached due to employee error, malfeasance or otherwise. Furthermore, outside parties may attempt to fraudulently induce employees, users or content providers to disclose sensitive information in order to gain access to LOEN's data or its users' or content providers' data or accounts, or may otherwise obtain access to such data or accounts.

Since LOEN's MeOn users and content providers may use their MeOn accounts to establish and maintain online identities, unauthorized communications from MeOn accounts that have been compromised may damage their reputations and brands as well as LOEN's. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to LOEN's reputation and a loss of confidence in the security of its services, which could have an adverse effect on LOEN's business, financial condition and results of operations. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, LOEN may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach its security occurs or the market perception of the effectiveness of its security measures is harmed, LOEN could lose users and content providers and it may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties.

If LOEN is unable to protect its intellectual property, the value of its brands and other intangible assets may be diminished, and its business may be adversely affected.

LOEN regards its intellectual property rights as critical to its success, and in particular the brand names used by LOEN are important assets. LOEN owns various trademarks, service marks and related logos, including "LOEN Entertainment," "LOEN Music," "1theK" and "MeOn" used in its content distribution and online music services operations, as well as "LOEN Tree," "Starship Entertainment," "KINGKONG Entertainment" and "Plan A Entertainment" used in its content production business. Such trademarks and service marks are registered in Korea, and LOEN has registered or is in the process of registering them on a selective basis in foreign countries in which it conducts business or expects to do business in the future. Maintaining the reputation of, and value associated with, LOEN's brand names is critical to the success of its business, but there is no guarantee that LOEN will be able to do so.

LOEN seeks to protect its brands and other intellectual property rights by relying on a combination of confidentiality and license agreements with its employees, consultants and third parties with whom it has relationships, as well as trademark, trade dress, domain name, copyright and trade secret laws. However, various events outside of LOEN's control may pose a threat to its intellectual property rights. For example, LOEN may fail to obtain effective intellectual property protection, or third parties may knowingly or unknowingly infringe LOEN's proprietary rights or challenge proprietary rights held by LOEN, and pending and future trademark applications may not be approved. In any or all of these cases, LOEN may be required to expend significant time and expense in order to prevent

infringement or to enforce its rights. There can be no assurance that LOEN's intellectual property rights will be sufficient to protect against others offering services or contents that are substantially similar to LOEN's and compete with its business.

LOEN is party to numerous agreements that grant licenses to third parties to use its intellectual property, including its trademarks. If the licensees of LOEN's trademarks are not using such trademarks properly, it may limit LOEN's ability to protect its trademarks and could ultimately result in such trademarks being declared invalid or unenforceable. There can be no assurance that LOEN will be able to protect against the unauthorized use of its brands, trademarks or other intangible assets. There is also a risk that one or more of its trademarks could become generic, which could result in them being declared invalid or unenforceable.

LOEN may be unable to obtain trademark protection for its brands, and its existing trademarks, and any trademarks that may be issued in the future, may not provide it with competitive advantages or distinguish its services and contents from those of its competitors. In addition, any trademarks may be contested, circumvented, or found unenforceable or invalid, and LOEN may not be able to prevent third parties from infringing, diluting or otherwise violating them. Significant impairments of LOEN's intellectual property rights, and limitations on its ability to assert its intellectual property rights against others, could harm LOEN's business and its ability to compete.

LOEN may be subject to intellectual property rights claims, which may force it to incur substantial legal expenses and, if resolved adversely, could have a significant impact on LOEN's business.

Companies in the music entertainment and media industries own large numbers of licenses, trademarks and copyrights, and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. In addition, various "non-practicing entities" that own copyrights and other intellectual property rights may attempt to aggressively assert their rights in order to extract value from music entertainment companies such as LOEN. From time to time LOEN has received, and may receive in the future, claims from third parties which allege that LOEN has infringed upon their intellectual property rights. Furthermore, from time to time LOEN may introduce or acquire new services or contents, including in areas where it historically has not competed, which could increase its exposure to intellectual property claims from competitors and non-practicing entities.

As LOEN faces increasing competition and gains an increasingly high profile, intellectual property claims against it may grow. There may be intellectual property or other rights held by others, including copyrights and exclusive licenses to music content, that cover significant aspects of LOEN's services and contents, and LOEN cannot be sure that it is not infringing or violating, and has not infringed or violated, any third-party intellectual property rights or that it will not be held to have done so or be accused of doing so in the future. Any claim or litigation alleging that LOEN has infringed or otherwise violated intellectual property or other rights of third parties could be time-consuming and costly to address and resolve, and could divert the time and attention of LOEN's management. The outcome of any litigation is inherently uncertain, and there can be no assurance that favorable final outcomes will be obtained. In addition, plaintiffs may seek, and LOEN may become subject to, preliminary or provisional rulings in the course of any such litigation, including potential preliminary injunctions requiring LOEN to cease some or all of its operations. LOEN may decide to settle such lawsuits and disputes on terms that are unfavorable to LOEN. Similarly, if any litigation to which LOEN is a party is subject to an unfavorable judgment, such judgment may not be reversed upon appeal. The terms of such a settlement or judgment may require LOEN to cease some or all of its operations or pay substantial amounts to the other party. In addition, LOEN may have to seek a license to continue practices found to be in violation of a third party's rights, which may not be available on reasonable

terms, or at all, and may significantly increase LOEN's operating costs. Accordingly, an unfavorable resolution of any disputes or litigation relating to intellectual property claims against LOEN could adversely affect its business, financial condition and results of operations.

Legal proceedings or allegations of impropriety against LOEN or its key personnel could have a material adverse impact on its reputation, results of operations and financial condition.

From time to time, LOEN has been, and may be in the future, involved in lawsuits or subject to allegations brought by its competitors, customers, counterparties or other entities or individuals against it or its key personnel, including claims of unfair, unethical or otherwise inappropriate business practices. Any such lawsuit or allegation, with or without merit, or any perceived unfair, unethical or inappropriate business practice by LOEN could generate negative publicity about LOEN, harm its reputation and divert resources and management attention from the operation of its business. There can be no assurance that LOEN or its personnel will not be involved in lawsuits or subject to allegations of similar nature in the future. In addition, such proceedings or allegations could result in substantial costs and divert management's attention and resources from LOEN's core business, and LOEN could suffer reputational damage, even if it is successful in its defense or counterclaims.

LOEN plans to selectively expand its operations abroad and, as a result, it may become subject to increased business and economic risks.

LOEN plans to selectively expand its operations into countries outside Korea that offer attractive growth opportunities, either through adapting its current contents and services or through acquisitions and strategic partnerships. However, expansion of its operations abroad may be difficult due to the presence of established competitors in such markets. In addition, managing its business and expanding its operations internationally will require considerable management attention and resources and will subject LOEN to the particular challenges of supporting a growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems and commercial markets. International expansion may require LOEN to invest significant funds and other resources, and there can be no assurance that it will successfully achieve its overseas growth objectives.

Operating internationally will subject LOEN to new risks and may increase risks that it currently faces, including risks associated with:

- different and potentially lower levels of user growth, user engagement and demand for online music downloading and streaming services in new markets;
- competition from music entertainment companies that have strong positions in particular markets and that may seek to expand their geographic footprint to Korea;
- providing engaging content and services while operating in different languages and cultures, and localizing its services, products, content and features to ensure that they are culturally adapted to the markets where they are offered;
- recruiting and retaining talented and capable employees in foreign countries and maintaining its corporate culture across all of its offices;
- operating different payment processing systems;
- compliance with applicable foreign laws and regulations, including laws and regulations with respect to telecommunications, intellectual property, privacy, consumer protection,

taxation, exchange controls, fair trade, economic sanctions and anti-corruption, and the risk of penalties if its practices are deemed not to be in compliance;

- political, social and economic instability in some countries; and
- higher costs of conducting business, including increased infrastructure, travel, accounting and legal compliance costs.

If LOEN is unable to manage its future international expansion successfully, its business, financial condition and results of operations could be adversely affected.

Risks Related to Korea

If economic conditions in Korea deteriorate, the current business and future growth of the Bank, us and LOEN could be materially and adversely affected.

The Bank, we and LOEN are incorporated in Korea and most of our and their operations are conducted in Korea. As a result, we and they are subject to political, economic, 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 and their control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (known as the "KOSPI") and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect the Bank's, our and LOEN's business, financial condition and results of operations.

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

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;
- 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;
- 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;
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or small- and medium-sized enterprise borrowers;
- the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China's economy, which is Korea's most important export market;
- the economic impact of any pending or future free trade agreements;
- social and labor unrest;
- further decreases in the market prices of Korean real estate;
- a decrease in tax revenue and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, 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, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean business groups;
- 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 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 from May to July 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;
- 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;
- 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 global 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 LOEN and the market value of our and their securities, including the Bonds and the Shares.

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, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear 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.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such tests (as well as North Korea's long-range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to 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. High-ranking officials from North Korea and Korea subsequently met for discussions and entered into an agreement in August 2015 intended to diffuse military tensions.
- 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 the Bank's, our and LOEN's business, financial condition and results of operations.

Class action lawsuits related to securities transactions may expose the Bank, us and LOEN to additional litigation risk.

The Securities-related Class Action Act of Korea permits class action lawsuits to be instituted by one or more representative plaintiffs on behalf of 50 or more persons who collectively hold 0.01% or more shares of a listed company in Korea and who claim to have been damaged in a capital markets transaction involving securities issued by the company. Applicable causes of action with respect to such lawsuits include, among others, claims for damages caused by misleading information contained in a securities registration statement or prospectus, the filing of a misleading business report, insider trading or market manipulation and claims instituted against auditors for damages caused by accounting irregularities. There can be no assurance that the Bank, we and LOEN will not become subject to class action lawsuits in the future. If such class action suits are instituted against us or them, it could result in substantial costs and divert our and their management's attention and resources from our and their business.

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 Bonds. As the Bank, we and LOEN are Korean companies, there are risks associated with investing in our and their securities that are not typical for investments in securities of U.S. or European companies. As Korean companies, we and they 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, the Bank, we and LOEN prepare and present our and their financial statements in accordance with K-IFRS, which differ in many material respects from accounting principles applicable to companies in certain other countries. We and they also make public disclosures regarding other aspects of our and their business in accordance with the rules and regulations of the Korea Exchange and accepted practice in Korea. These 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 and them, 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 the Bank, our company and LOEN, the terms of this offering and the financial information contained in this offering circular.

The Bank, we and LOEN are incorporated in Korea, and it may be more difficult to enforce judgments obtained in courts outside Korea.

The Bank, we and LOEN are incorporated in Korea. All or a significant majority of our and their directors are Korean residents, and substantially all of our and their assets and the personal assets of our and their directors and executive officers are located in Korea. As a result, it may be more difficult for investors to effect service of process upon the Bank, us or LOEN outside Korea or to enforce against us, them or our or their directors or executive officers judgments obtained in courts outside Korea.

Risks Related to the Bonds and the Shares

The Guarantee relates to the payment of the principal amount of the Bonds and additional amounts, if any, on the Bonds but not to the ability of holders to exchange their Bonds for Shares or the Exchange Property.

In connection with our issuance of the Bonds, the Guarantor has unconditionally and irrevocably agreed to guarantee the due payment of the U.S. Dollar Equivalent of 100.00% of the principal amount of the Bonds and additional amounts owing from time to time under the Bonds. The Guarantee does not, however, guarantee the performance by us of our other obligations, and in particular, does not include a guarantee of our obligations to exchange the Bonds for Shares or the Exchange Property. Accordingly, if at any time a holder of the Bonds elects to exchange its Bonds for Shares or its pro rata share of the Exchange Property, we fail to make such Shares or Exchange Property available to the holder for any reason, the holder will not have any right against us or the Guarantor until an event of default under the terms and conditions of the Bonds is declared and the Bonds become due and payable. In addition, the amount that will be owed following an event of default will be equal to the principal amount of the Bonds, and will not include any amounts relating to the appreciation of the Shares or Exchange Property, if any. Accordingly, to the extent that the value of the Shares or Exchange Property has increased such that the market value of the Bonds is greater than their par value, if the Bonds became due and payable as a result of an event of default, holders would not be able to collect any such premium from us or the Guarantor under the terms of the Guarantee.

Holders of the Bonds will bear the risk of fluctuations in the price of the Shares.

The market price of the Bonds will be affected by, among other things, fluctuations in the trading price of the Shares. No assurance can be given as to the future trading price of the Shares or the Bonds. The trading price of the Shares will be influenced by, among other things, LOEN's results of operations and sales of additional Shares or securities exchangeable for or convertible into Shares, as well as political, economic, financial and other factors in the Korean market. Any future sales of a significant number of Shares by us, LOEN or other shareholders of LOEN, or the perception that these events may occur, could cause the trading price of the Shares to decrease or to be lower than it might be in the absence of these events or perceptions.

Furthermore, stock markets, including the KRX KOSDAQ Market on which the Shares are traded, have from time to time experienced significant price and volume fluctuations that have affected the market prices of securities. These fluctuations often have been unrelated or disproportionate to the operating performance of publicly traded companies.

Holders of the Bonds will have no rights as holders of the Shares until the exchange of the Bonds for Shares.

Unless and until the holders of the Bonds acquire Shares upon exchange of the Bonds, the holders of the Bonds will have no rights with respect to the Shares, including any voting rights or rights

to receive any dividends or other distributions with respect to the Shares. Holders who exchange the Bonds for Shares will be entitled to exercise the rights as holders of the Shares only as to actions for which the applicable record date occurs after the date of the exchange.

Bondholders will have no security interest in the Shares.

The Bonds do not create any security interest in favor of Bondholders either to secure the payment obligations arising under the Bonds or to secure the obligation to deliver Shares upon exercise of the Exchange Rights thereunder. However, pursuant to Korean law, the Shares to be delivered upon exercise of the Exchange Rights under the Bonds must be deposited with the Korean Securities Depository (the “KSD”) for the term of the Bonds and the KSD will hold the Shares as trust property. We have created for the benefit of the Guarantor, as consideration for providing the Guarantee, an encumbrance on our right to receive the Shares deposited with the KSD upon redemption of the Bonds and an encumbrance on an additional 2,529,171 Shares, which are enforceable by the Guarantor if it is required to make payments under the Guarantee.

Fluctuations in the exchange rate between the Won and the U.S. dollar may have a material adverse effect on the value of the Bonds or the market price of the Shares in U.S. dollar terms.

Although the principal amount of the Bonds is denominated in Won, all amounts due under the Bonds will be settled in U.S. dollars based on prevailing exchange rates. Furthermore, the Shares are traded and quoted in Won on the KRX KOSDAQ Market. In addition, cash dividends, if any, in respect of the Shares will be paid in Won. As a result, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the U.S. dollar amounts payable under the Bonds, as well as the secondary market price of the Bonds, the market price of the Shares in U.S. dollar terms and the U.S. dollar value of any cash dividends paid in respect of the Shares.

Certain transactions may dilute the potential ownership interest in the Shares to which the holders of the Bonds are entitled.

The number of Shares that holders of the Bonds are entitled to receive when they convert their Bonds is subject to adjustment for certain events, including but not limited to a free distribution, bonus issue or subdivision, consolidation or re-classification of the Shares, an issuance of options, rights or warrants to purchase Shares, a distribution of cash, assets, evidences of indebtedness and share or cash dividends and other similar dilutive actions that LOEN may undertake to modify its capital structure. However, the number of Shares to be received will not be adjusted for other events, such as certain offerings or issuances of options, warrants, rights or certain other securities to LOEN’s directors, officers or employees, that may adversely affect the market price of the Shares and therefore the secondary market price of the Bonds. See “Terms and Conditions of the Bonds — Exchange — Adjustments to Exchange Price.” We cannot give any assurance that LOEN will not take any of the foregoing actions in the future.

The Guarantee is an unsecured obligation, and the Guarantor’s assets may not be sufficient to pay amounts due under the Guarantee.

Because the Guarantee is an unsecured obligation, the ability of the Guarantor to make payments under the Guarantee may be compromised if:

- The Guarantor enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;

- there is a default in payment under the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Guarantor's indebtedness.

If any of these events occurs, the Guarantor's assets may not be sufficient to pay amounts due under the Guarantee.

The Bonds and any Shares deliverable upon exchange are subject to transfer restrictions.

The Bonds are subject to restrictions on transfer as described under "Subscription and Sale — Transfer Restrictions." Among other things, the Bonds may not be offered, sold or otherwise transferred to a Korean resident on or prior to May 11, 2017, the first anniversary of the Closing Date. These transfer restrictions may adversely affect the liquidity of the Bonds. In addition, Bondholders seeking to exercise their exchange rights and acquire Shares may be required to first obtain an investment registration card from the FSS by registering their identity in accordance with applicable Korean laws and regulations (as described in "Korean Foreign Exchange and Securities Regulations") and file an over-the-counter transaction report of the acquisition with the Governor of the FSS without delay. Unless specifically exempted, any trading of the Shares by a non-Korean resident or a non-Korean corporation is required to be made on the KRX KOSDAQ Market through a broker-dealer licensed to do business in Korea. Such requirements may further affect the liquidity of the Bonds, and may limit a Bondholder's ability to take advantage of short-term increases in the market price of Shares.

There is no existing trading market for the Bonds and, therefore, the Bonds offer limited liquidity.

The Bonds constitute a new issue of securities for which there is no existing market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Bonds on the SGX-ST. The offer and sale of the Bonds is not conditioned on obtaining a listing of the Bonds on the SGX-ST or any other exchange. Although the Managers have advised us that they currently intend to make a market in the Bonds, they are not obligated to do so, and any market-making activity with respect to the Bonds, if commenced, may be discontinued at any time without notice at their sole discretion. See "Subscription and Sale."

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Bonds. If an active trading market for the Bonds does not develop or is not maintained, the liquidity and market price of the Bonds may be adversely affected. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, including:

- prevailing interest rates;
- the results of operations and financial condition of the Guarantor, us and LOEN;
- the price and volatility of the Shares and the Korean stock market;
- political and economic developments in and affecting Korea, the United States, the European Union and China;
- the market conditions for similar securities; and

- the financial condition and stability of the financial and information technology sectors in Korea and other parts of the world.

Future sales of Shares may adversely affect the price of the Shares and the Bonds

We and LOEN have agreed with the Managers that we and LOEN will not, without the prior written consent of the Managers, until 90 days following the Closing Date, issue, offer, sell, pledge, contract to sell or otherwise dispose of any Shares or any securities convertible into or exchangeable for the Shares, subject to certain exceptions. However, once these lock-up restrictions expire, terminate or are waived, there is no restriction on our ability to sell or LOEN's ability to issue Shares. Future issuances or sales of substantial amounts of Shares in the public market after the completion of this offering, or the perception that substantial issuances or sales could occur, could have a material adverse effect on the market price of the Shares and, in turn, the Bonds.

Exchange of the Bonds for Shares may be deemed a taxable event of the holders of the Bonds for capital gains tax purposes.

It is unclear under Korean tax law whether the exchange of the Bonds into Shares would constitute a taxable event for the holders of the Bonds for Korean capital gains tax purposes. In case the exchange of the Bonds is deemed to be a taxable event, the holders of the Bonds will be subject to Korean withholding tax and will not be entitled to receive Additional Amounts (as described in "Terms and Conditions of the Bonds — Taxation") in respect of such withholding tax. It is uncertain how the amount subject to such tax would be calculated. Such tax may be exempted or reduced under applicable tax treaties or under Korean tax law, depending on the classification of the income arising from such conversion. See "Taxation."

Bondholders are bound by decisions of defined majorities in respect of any modification, waiver and substitution relating to the Bonds.

The terms and conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Trustee may request that Bondholders provide an indemnity and/or security and/or pre-funding to its satisfaction.

In certain circumstances, the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any action on behalf of Bondholders. The Trustee will not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may have an impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed or in circumstances where there is uncertainty or a dispute as to the applicable laws or regulations and, to the extent permitted by the Trust Deed, the terms and conditions of the Bonds and applicable laws and regulations, it will be for the Bondholders to take such actions directly.

Risks Relating to Forward-Looking Statements

This offering circular contains forward-looking statements that are the Bank's, our or LOEN's 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 the Bank's, our and LOEN's 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:

- our and their ability to successfully implement our and their business strategy;
- the level of user acceptance of our and their services;
- changes in competitive conditions in the Korean or global industries in which we and they compete;
- 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 and their leverage and our and their ability to meet our and their debt obligations; 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 investments 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, the Bank, we and LOEN 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 the Bank, us or LOEN or any person acting on our or their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

TERMS AND CONDITIONS OF THE BONDS

The following other than the words in italics is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of KRW230,000,000,000 in aggregate principal amount of U.S. Dollar-Settled Zero Coupon Guaranteed Exchangeable Bonds due 2021 (the “Bonds”) of Kakao Corp. (the “Issuer”) guaranteed by Kookmin Bank (the “Guarantor”) was authorized by a resolution of the Board of Directors of the Issuer passed on April 25, 2016. The Bonds are constituted by a trust deed (as amended or supplemented from time to time) (the “Trust Deed”) dated May 11, 2016 (the “Closing Date”) and made among the Issuer, the Guarantor and The Bank of New York Mellon, London Branch as trustee for the holders of the Bonds (the “Trustee”, which term shall, where the context so permits, include all other persons for the time being acting as trustee or trustees under the Trust Deed), and are the subject of a deed of guarantee (as amended or supplemented from time to time) (the “Deed of Guarantee”) dated May 11, 2016 entered into by the Guarantor. The Issuer and the Guarantor have entered into a paying, exchange and transfer agency agreement (as amended or supplemented from time to time) (the “Agency Agreement”) dated May 11, 2016 with the Trustee, The Bank of New York Mellon, London Branch as principal paying and exchange agent (the “Principal Agent”), The Bank of New York Mellon (Luxembourg) S.A. as transfer agent and registrar (the “Registrar”) and the other paying, exchange and transfer agents appointed under it (each a “Paying Agent”, “Exchange Agent”, “Transfer Agent” (references to which shall include the Registrar) and together with the Registrar and the Principal Agent, the “Agents” (which shall, where applicable, include the Singapore Agent (as defined in Condition 18))) relating to the Bonds. References to the “Principal Agent”, “Registrar” and “Agents” below are references to the principal agent, registrar and agents for the time being for the Bonds. All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Issuer shall be payable and settled in U.S. dollars only in accordance with the provisions of these Conditions and of the Trust Deed.

The statements in these terms and conditions (these “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Guarantee. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Deed of Guarantee, the Trust Deed and the Agency Agreement are available for inspection upon prior written request during usual business hours (Monday to Friday 9:00 am to 3:00 pm) at the principal office of the Trustee being on the date hereof at One Canada Square, London E14 5AL, United Kingdom and at the specified offices of each of the Agents. The Bondholders are entitled to the benefit of the Trust Deed and the Deed of Guarantee and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Deed of Guarantee and the Agency Agreement applicable to them. Any redemption or repurchase, whether upon change of control or otherwise, and any adjustment to the Exchange Price (as defined in Condition 6.1.3) in accordance with the terms and conditions contained herein will be subject to, and done in accordance with, applicable law.

1. STATUS AND GUARANTEE

1.1 Status of the Bonds

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and rateably without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all of the Issuer’s other present and future direct, unsubordinated, unconditional and unsecured obligations.

1.2 Guarantee of the Bonds

The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all principal amounts from time to time payable by the Issuer in respect of the Bonds (provided, that such principal amounts guaranteed by the Guarantor shall be no greater than KRW230,000,000,000), and any Additional Amounts which may become payable under Condition 9, as and when the same become due according to these Conditions. Such guarantee (the "Guarantee of the Bonds") constitutes direct, unconditional, unsubordinated and unsecured obligations of the Guarantor. The obligations of the Guarantor under the Guarantee of the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law, at all times rank at least equally with all other present and future direct, unconditional, unsubordinated and unsecured indebtedness of the Guarantor.

2. **FORM, DENOMINATION AND TITLE**

2.1 Form and Denomination

The Bonds are issued in registered form without coupons and only in denominations of KRW200,000,000 each or in integral multiples thereof. A Bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar pursuant to the Agency Agreement. The Bonds may not be subdivided into a denomination smaller than KRW200,000,000.

Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") in registered form which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form. If owners of interests in the Bonds become entitled to receive a definitive Certificate, pursuant to their terms, each Bond will be issued in registered form and serially numbered with an identifying number which will be recorded in the Register.

2.2 Title

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 3. The holder of any Bond 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 in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and none of the Issuer, the Trustee or any agent thereof shall be affected by notice to the contrary. In these Conditions "Bondholder" and (in relation to a Bond) "holder" mean the person in whose name a Bond is registered.

3. **TRANSFERS OF BONDS; ISSUE OF CERTIFICATES**

3.1 Register

The Issuer will cause to be kept at the specified office of the Registrar outside the United Kingdom and in accordance with the terms of the Agency Agreement a register in respect of

the Bonds on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and exchanges of the Bonds (the “Register”).

Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds and save as provided in Condition 3.2, each Certificate shall represent the entire holding of Bonds by such Bondholder.

3.2 Transfers

Subject to Conditions 3.5 and 3.6 and the terms of the Agency Agreement, a Bond may be transferred or exchanged by delivery of the Certificate issued in respect of that Bond duly endorsed and accompanied by a form of transfer duly completed and signed by the holder or his attorney duly authorized in writing, to the specified office of the Registrar or any of the Transfer Agents, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require regarding the title of the transferor and the authority of the individuals who have executed the form of transfer. A Bond may be transferred only if the principal amount of such Bond being transferred is KRW200,000,000 or an integral multiple thereof. No transfer of title to a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

3.3 Delivery of New Certificates

3.3.1 The relevant transfer or exchange will be registered by the Registrar within five business days and each new Certificate to be issued upon a transfer or exchange of Bonds will, within five business days (at the place of the relevant specified office) of receipt by the Registrar or, as the case may be, any other relevant Transfer Agent of the original Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (free of charge to the holder but if mailed otherwise than by ordinary mail at the request of the transferee or, as the case may be, the transferor, then at the expense of the transferee or, as the case may be, the transferor) to the address specified in the form of transfer.

3.3.2 Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, exchanged, redeemed or repurchased, such transfer, exchange, redemption or repurchase shall be registered in the register by the Registrar and a new Certificate in respect of the Bonds not so transferred, exchanged, redeemed or repurchased will, within five business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection by the holder of the Bonds not so transferred at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, Exchange Notice (as defined in Condition 6.2), notice of redemption, Purchase Notice or Put Option Notice, as applicable, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, exchanged, redeemed or repurchased (free of charge to the holder but if mailed otherwise than by ordinary mail at the request of the transferee or, as the case may be, the transferor, then at the expense of the transferee or, as the case may be, the transferor) to the address of such holder appearing on the Register.

3.3.3 For the purposes of these Conditions (except for Condition 6.2.1(iii), Condition 7 and Condition 8.5.6), “business day” shall mean a day other than a Saturday or Sunday on which banks are open for business in Seoul and the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or exchange) or the Agent with whom a Certificate is deposited in connection with a transfer or exchange, is located.

3.4 Formalities Free of Charge

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity as the Issuer or any of the Agents may require) of a sum sufficient to cover any tax, duties or other governmental charges which may be imposed in relation to such transfer (and such transfer shall not be made unless and until the required payment described herein is made); (ii) the Issuer or the relevant Transfer Agent being satisfied that the regulations concerning transfer of Bonds have been complied with (including such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee) and (iii) the Registrar being satisfied in its absolute discretion with the documents of and/or the identity of the person making the application.

3.5 Restricted Transfer Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the due date for any redemption pursuant to Conditions 8.1, 8.2 and 8.3 of the Bonds; (ii) after an Exchange Notice has been delivered with respect to such Bond; (iii) after a Change of Control Put Exercise Notice (as defined in Condition 8.4) has been delivered in respect of such Bond; (iv) after a Purchase Notice (as defined in Condition 8.5) has been delivered in respect of such Bond or (v) after a Put Option Notice (as defined in Condition 8.6) has been delivered in respect of such Bond, each such period being a “Restricted Transfer Period”.

3.6 Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds attached as a schedule to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the Issuer’s expense) by the Registrar to any Bondholder who requests in writing a copy of such regulations.

3.7 Transfer Restriction under Korean Law

The Bonds may not be offered, sold or otherwise transferred to a Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea) on or prior to May 11, 2017, the first anniversary of the date of issuance of the Bonds.

4. NEGATIVE PLEDGE

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that no Principal Subsidiary (as defined below) will, create or permit to be outstanding any mortgage, charge, lien, pledge or other security interest upon the whole or any part of the property, assets or revenues, present or future, of the Issuer or any Principal Subsidiary to secure for the benefit of the holders of any International Investment Securities (as defined below):

- (a) any payment of any sum owing in respect of any such International Investment Securities; or
- (b) any payment under any guarantee or other like obligation of any such International Investment Securities; or
- (c) any payment under any indemnity or other like obligation relating to any such International Investment Securities,

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Deed (a) are secured equally and rateably therewith to the satisfaction of the Trustee or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by, or the obligations under this Condition 4 are otherwise waived pursuant to, an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

The following terms (except as otherwise expressly provided or unless the context otherwise clearly requires) for all purposes of the Trust Deed and the Bonds shall have the respective meanings specified in this Condition:

"International Investment Securities" means any future and present indebtedness in the form of or represented by bonds, debentures, notes or other investment securities of the Issuer or any Principal Subsidiary or any other Person which (i) are for the time being, or are intended to be or capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or other securities market outside Korea (whether or not initially distributed by way of private placement), and (ii) either are by their terms payable, or confer a right to receive payment, in any currency other than Won or are denominated in Won and more than 50% of the aggregate principal amount thereof is initially distributed outside Korea by or with the authorization of the Issuer or the relevant Principal Subsidiary or the issuer thereof, as the case may be.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Principal Subsidiary" means:

- (i) any Subsidiary (as defined below) of the Issuer:
 - (x) whose net sales, as shown by the then latest audited financial statements or accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) of such Subsidiary, constitute at least 10% of the consolidated net sales of the Issuer as shown by the then latest audited consolidated accounts of the Issuer; or

- (y) whose total assets, as shown by the then latest audited financial statements or accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) of such Subsidiary, constitute at least 10% of the total consolidated assets of the Issuer as shown by the then latest audited consolidated accounts of the Issuer;

provided that:

- (1) in the case of a Subsidiary acquired, or a company becoming a Subsidiary, after the end of the financial period to which the latest audited consolidated accounts of the Issuer relate, the reference to the then latest audited consolidated accounts of the Issuer for the purposes of the calculation above shall, until audited consolidated accounts of the Issuer for the financial period in which the acquisition is made or, as the case may be, in which the relevant company becomes a Subsidiary are published, be deemed to be a reference to the then latest audited consolidated accounts of the Issuer adjusted to consolidate the last audited accounts (consolidated where applicable) of such Subsidiary in such accounts;
 - (2) if at any relevant time in relation to the Issuer or any Subsidiary in respect of which financial consolidation is relevant no consolidated accounts are prepared, audited net sales and total assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro-forma consolidated accounts prepared for this purpose by the auditors for the time being of the Issuer;
 - (3) if at any relevant time in relation to any Subsidiary no accounts are audited, its net sales and total assets (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) shall be determined on the basis of pro-forma accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) of the relevant Subsidiary prepared for this purpose by the auditors for the time being of the Issuer; and
 - (4) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (1) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro-forma consolidation of its accounts (consolidated where applicable, but without intercompany adjustments for consolidation with the Issuer) with the then latest consolidated audited accounts (determined on the basis of the foregoing) of the Issuer; or
- (ii) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary.

“Subsidiary” means any company or other business entity of which the Issuer owns or controls (in either case, either directly or through another Subsidiary or other Subsidiaries) 50% or more of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which should have its accounts consolidated with those of that person under Korean law, regulations or generally accepted accounting principles from time to time.

5. INTEREST

The Bonds do not bear any interest, provided that if the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum pursuant to Condition 7.6.

6. EXCHANGE

6.1 Exchange Right

6.1.1 Exchange Period:

Subject as hereinafter provided, Bondholders have the right to exchange their Bonds in an aggregate principal amount of KRW200,000,000 or an integral multiple thereof for Shares (as defined in Condition 6.1.5) or Exchange Property (as defined in Condition 6.1.6), as applicable, at any time during the Exchange Period referred to below.

The right of a Bondholder to exchange any Bond for Shares or Exchange Property, as applicable, is called the "Exchange Right". Subject to and upon compliance with the provisions of this Condition, the Exchange Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time (subject to the next paragraph) on or after June 21, 2016, up to the close of business (at the place where the Certificate evidencing such Bond is deposited for exchange) on April 30, 2021 (but, except as provided in Condition 6.1.4 and Condition 10, in no event thereafter) or if such Bond shall have been called for redemption before April 30, 2021, then up to the close of business (at the place aforesaid) on the date that is seven business days (at the place aforesaid) prior to the date fixed for redemption thereof (the "Exchange Period").

Exchange Rights may not be exercised in respect of a Bond where the Bondholder shall have exercised its right to require the Issuer to redeem such Bond pursuant to Condition 8.4, 8.5 or 8.6, except as provided in Condition 6.1.4.

The number of Shares to be delivered on exchange of a Bond will be determined by dividing the principal amount of the Bond to be exchanged by the Exchange Price in effect on the Exchange Date (both as hereinafter defined).

An Exchange Right may only be exercised in respect of Bonds with a principal amount of KRW200,000,000 or an integral multiple thereof. If more than one Bond held by the same holder is exchanged at any one time by the same holder, the number of Shares to be delivered upon such exchange will be calculated on the basis of the aggregate principal amount of the Bonds to be exchanged.

Upon exercise of Exchange Rights in relation to the entire principal amount of any Bond and the fulfilment by the Issuer of all its obligations in respect thereof, the relevant Bondholder shall have no further rights in respect of such Bond and the obligations of the Issuer in respect thereof shall be extinguished.

6.1.2 Fractions of Shares:

Fractions of Shares (or Exchange Property Securities (as defined in Condition 6.1.6)) will not be delivered on exchange and no cash adjustments or other adjustment will be made in respect thereof. However, if the Exchange Right in respect of more than one Bond is exercised at any one time such that Shares (or Exchange Property Securities) to be delivered on exchange are to be registered in the same name, the number of such Shares (or Exchange Property Securities) to be delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so exchanged and rounded down to the nearest whole number of Shares (or Exchange Property Securities). Notwithstanding the foregoing, the Issuer will upon exchange of Bonds pay in cash the U.S. Dollar Equivalent (as defined in Condition 7.1) of a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Exchange Rights, aggregated as provided above, as corresponds to any fraction of a Share (or Exchange Property Securities) not delivered if the U.S. Dollar Equivalent of such sum exceeds US\$10.00. Any such sum shall be paid not later than 14 business days after the relevant Exchange Date by transfer to a U.S. dollar account with a bank in New York City specified in the relevant Exchange Notice, or if no such account is specified in the relevant Exchange Notice, by mailing a U.S. dollar cheque drawn on a bank in New York City to the address of the Bondholder appearing in the Register.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an Alternative Clearing System (as defined in the form of the Global Certificate), payments on the Bonds are expected to be made by transfer through Euroclear or Clearstream or an Alternative Clearing System.

6.1.3 Exchange Price and Exchange Ratio:

The price at which Shares will be delivered upon exchange, as adjusted from time to time (the “Exchange Price”), will initially be KRW104,933 per Share, but will be subject to adjustment in the manner provided in Condition 6.3. The “Exchange Ratio” is equal to the principal amount of each Bond divided by the Exchange Price.

6.1.4 Revival and/or Survival after Default:

Notwithstanding the provisions of Condition 6.1.1, if (a) the Issuer (failing which, the Guarantor) shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof pursuant to these Conditions, (b) any Bond has become due and payable prior to the Maturity Date (as defined in Condition 8.1) by reason of the occurrence of any of the events referred to in Condition 10, or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8.1, the Exchange Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for exchange) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6.1.1, any Bond in respect of which the Certificate and Exchange Notice are deposited for exchange prior to such date shall be exchanged on the relevant Exchange Date (as defined in Condition 6.2.1(iii)) notwithstanding that notice referred

to above may have been duly given to the Bondholders before such Exchange Date or that the Exchange Period may have expired before such Exchange Date. For the avoidance of doubt nothing in this Condition 6.1.4 shall permit any Bondholder to both have Shares delivered to it pursuant to Condition 6.2.3 (or Exchange Property delivered to it pursuant to Condition 6.1.6, if applicable) and receive payment of the moneys payable with respect to such Bond.

6.1.5 Meaning of “Shares”:

As used in these Conditions, the expression “Shares” means (a) shares of common stock, par value KRW500 per share, of Loen Entertainment, Inc. (“Loen”), together with shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of Loen and (b) fully-paid shares of any class or classes of the share capital of Loen authorized after the date of the Trust Deed which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up of Loen; provided that, subject to the provisions of Condition 6.1.6, shares to be delivered in exchange of the Bonds means only “Shares” as defined in sub-clause (a) above.

6.1.6 Substitution of Exchange Property for Shares Following a Consolidation, Amalgamation or Merger of Loen:

- (i) If (i) Loen consolidates with, merges or amalgamates into, or sells or transfers its assets substantially as an entirety to, any person and (ii) the holders of the Shares receive stock, other securities or other property or assets (including cash or any combination thereof) in exchange for their Shares (a “Loen Corporate Event”), each outstanding Bond shall become exchangeable into such stock, other securities or other property or assets (including cash or any combination thereof) receivable upon consummation of such Loen Corporate Event by a holder of the number of Shares which would have been delivered upon exchange of such Bond immediately prior to such Loen Corporate Event (the “Exchange Property”) and a Bondholder shall be entitled to receive Exchange Property in lieu of Shares upon exercise of its Exchange Right.
- (ii) To the extent that the issuer of any securities comprising the Exchange Property (“Exchange Property Securities”) takes any action with respect to such securities that is described under Condition 6.3 that would have required an adjustment to the Exchange Price if such securities had been the Shares and Loen had taken such action, then the number of Exchange Property Securities deliverable upon exchange of a Bond shall be adjusted as determined by an Independent Financial Institution (as defined in Condition 6.3.4) to appropriately reflect such event in a manner analogous to the adjustments that would have been made to the Exchange Price of the Shares in such circumstances.
- (iii) The Issuer shall monitor all corporate actions by the issuer of any Exchange Property Securities, including, but not limited to, the

declaration and distribution of dividends, interest, rights issues, bonus issues, capital distributions, reorganizations, subdivisions, consolidations, reclassifications, and offers for such Exchange Property Securities. The Issuer shall give notice to the Trustee and the Agents of any conversion of the Shares into Exchange Property or any further change in composition of the Exchange Property as soon as reasonably practicable following such conversion or change, and shall give such details in writing as the Trustee or the Agents may reasonably request of the Exchange Property to which the Bondholders would be entitled upon exercise of the Exchange Rights following such conversion or change. The Issuer shall give notice of any such conversion or change to the Bondholders as soon as practicable in accordance with Condition 17 and to the Guarantor and, for so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited (the “SGX-ST”) and the rules of the SGX-ST so require, the Issuer shall also give notice of any such conversion or change to the SGX-ST.

6.2 Exchange Procedure

6.2.1 Exchange Notice:

- (i) To exercise the Exchange Right attaching to any Bond, the holder thereof must complete, execute and deliver at his own expense during usual business hours at the specified office of any Exchange Agent on any business day a duly completed and signed notice of exchange (an “Exchange Notice”) in duplicate in the form (current at such time) obtainable from the specified office of each Agent, together with (a) the relevant Certificate (other than any Global Certificate) and (b) any amounts required to be paid by the Bondholder under Condition 6.2.2.

An Exchange Notice delivered outside the normal business hours or on a day which is not a business day at the place of the specified office of the relevant Exchange Agent shall for all purposes be deemed to have been delivered with that Exchange Agent during the usual business hours at such place on the next business day following such day. Any Bondholder who delivers an Exchange Notice during any period (a “Closed Period”) other than the Exchange Period specified in Condition 6.1.1 will not be permitted to exchange the Bonds for Shares or Exchange Property (as specified in the Exchange Notice) until the next business day after the end of that Closed Period, which (if all other conditions to exchange have been fulfilled) will be the Exchange Date for such Bonds notwithstanding that such date may fall outside of the Exchange Period.

- (ii) On or prior to delivering an Exchange Notice, the Bondholder exercising its Exchange Right must (i) obtain an investment registration card issued by the Korean Financial Supervisory Service by registering its identity with the Korean Financial Supervisory Service in accordance with applicable Korean laws and regulations, including the regulations of the Korean Financial Services

Commission and (ii) file an over-the-counter transaction report of the acquisition with the Governor of the Korean Financial Supervisory Service without undue delay. However, the registration requirement does not apply to foreign investors who acquire Shares with the intention of selling such Shares within three months from the date of acquisition of the Shares.

On or prior to delivering an Exchange Notice, a Bondholder exercising its Exchange Right or the person named in the relevant Exchange Notice to receive the delivery of any Shares on exchange must appoint an eligible custodian in Korea with which Shares will be kept in custody. For the avoidance of doubt, under Korean law, only foreign exchange banks, including domestic branches of foreign banks, financial investment companies with a dealing, brokerage or collective investment business license, the Korea Securities Depository (the "KSD") and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. In addition, a foreign investor must ensure that such foreign investor's custodian deposits its shares with the KSD; provided that a foreign investor may be exempt from complying with this deposit requirement with the approval of the Governor of the Financial Supervisory Service in circumstances where compliance with such deposit requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

No Shares will be delivered to a holder of a Bond or a beneficial interest therein unless such holder satisfies the foregoing conditions.

- (iii) The calendar day on which an Exchange Notice and any amounts required to be paid under Condition 6.2.1 have been delivered to an Exchange Agent (determined by reference to the date and time in Seoul at the time of delivery no matter where delivery is made) in full compliance with the foregoing procedures is referred to herein as a "Deposit Date" and the business day in Seoul immediately following the Deposit Date is referred to herein as the "Exchange Date". For purposes of the Korean Commercial Code, the request for exchange shall be deemed to have been made at 23:59, Seoul time on the Exchange Date. In this clause (iii), "business day in Seoul" shall mean a day other than a Saturday or Sunday on which banks are open for business in Seoul.
- (iv) The Exchange Date in respect of a Bond must fall at a time when the Exchange Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6.1.4 and Condition 10). An Exchange Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents to such withdrawal.

6.2.2 Stamp Duty etc.:

A Bondholder delivering a Certificate in respect of a Bond for exchange must pay directly to the relevant tax authorities any taxes or capital, stamp, issue, delivery and

registration and transfer taxes and duties arising on exchange (other than any taxes or capital or stamp duties payable in Korea and, if relevant, in the place of any Alternative Stock Exchange, in respect of the allotment and transfer or delivery of Shares or Exchange Property, as applicable, and listing of the Shares (or any securities comprising the Exchange Property, if applicable) on the KRX KOSDAQ Market of the Korea Exchange (the "KRX KOSDAQ Market") or any Alternative Stock Exchange on exchange, which shall be payable by the Issuer) (the "Taxes") and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such exchange. The Issuer will pay all other expenses arising on the delivery of Shares or Exchange Property, as applicable, on exchange of the Bonds and all charges of the Agents, the Trustee and the share transfer agent (which initially will be the KSD) (the "Share Transfer Agent") for the Shares or Exchange Property, as applicable, in connection with exchange. Neither the Trustee nor the Agents shall be responsible for determining whether such taxes or capital, stamp, issue, delivery and registration and transfer taxes and duties are payable or the amount thereof and neither shall be responsible or liable for any failure by the Issuer to pay such taxes or capital, stamp, issue, delivery and registration and transfer taxes and duties or to determine the sufficiency of any amount so paid.

6.2.3 Delivery of Shares and/or Exchange Property:

- (i) Upon exercise by a Bondholder of its Exchange Right, the Issuer shall use its best efforts to ensure that Loen (or the issuer of any Exchange Property Securities, if applicable), on or with effect from the relevant Exchange Date, enters the relevant Bondholder or its nominee in the register of security holders of Loen (or of such issuer of Exchange Property Securities, if applicable) in respect of such number of Shares (or relevant Exchange Property Securities, if applicable) to be delivered upon exchange (notwithstanding any Retroactive Adjustment (as defined in Condition 6.2.3(ii)) of the Exchange Price) and will, as soon as practicable, and in any event not later than ten business days after the Exchange Date, cause the relevant securities account of the Bondholder exercising its Exchange Right or of his/their nominee, to be credited with such number of relevant Shares (or relevant Exchange Property Securities, if applicable) to be delivered upon exchange (notwithstanding any Retroactive Adjustment of the Exchange Price) and, subject to any applicable limitations then imposed by Korean laws and regulations, shall procure the Share Transfer Agent to, as soon as practicable, and in any event within 20 business days in Korea of the Exchange Date, dispatch or cause to be dispatched to the order of the person named for that purpose in the relevant Exchange Notice at the place and in the manner specified in the relevant Exchange Notice (uninsured and the risk of delivery at any such place being that of the exchanging Bondholder) such assignments and other documents (if any) as required by law to effect the transfer thereof.

The crediting of the Shares or Exchange Property Securities to the relevant securities account of the exchanging Bondholder and any payment of cash payable pursuant to Condition 6.1.2 and the delivery

of any other assets comprising the Exchange Property (if any) will be deemed to satisfy the Issuer's obligation to pay the principal on the Bonds exchanged.

- (ii) If the Exchange Date in relation to any Bond shall be on or after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Exchange Price pursuant to Condition 6.3, but before the relevant adjustment becomes effective under the relevant Condition (a "Retroactive Adjustment"), upon the relevant adjustment becoming effective the Issuer shall deliver to the exchanging Bondholder (or in accordance with the instructions contained in the Exchange Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares (or Exchange Property Securities, if applicable) as, together with the Shares (or Exchange Property Securities, if applicable) delivered or to be delivered on exchange of the relevant Bond, is equal to the number of Shares (or Exchange Property Securities, if applicable) which would have been required to be delivered on exchange of such Bond if the relevant adjustment to the Exchange Price had been made and become effective immediately after the relevant record date.
- (iii) The Shares (or Exchange Property Securities, if applicable) delivered upon exchange of the Bonds will be fully paid and will in all respects rank *pari passu* with the Shares (or Exchange Property Securities, if applicable) in issue on the relevant Exchange Date (except for any right excluded by mandatory provisions of applicable law) and the exchanging Bondholder shall be entitled to all rights, the record date for which falls on or after such Exchange Date to the same extent as all other holders of fully-paid and non-assessable Shares (or Exchange Property Securities, if applicable) in issue as if such exchanging Bondholder had held such Shares (or Exchange Property Securities, if applicable) throughout the period to which such rights relate. A holder of Shares (or Exchange Property Securities, if applicable) delivered on exchange of Bonds shall not be entitled to any rights, the record date for which precedes the relevant Exchange Date.

6.3 Adjustments to Exchange Price

The Exchange Price will be subject to adjustment as described in this Condition 6.3.

6.3.1 Free Distribution, Bonus Issue, Sub-division, Consolidation and Re-classification of Shares:

Adjustment: If Loen shall (a) make a free distribution of Shares (other than by way of a dividend in Shares); (b) make a bonus issue of its Shares; (c) sub-divide its outstanding Shares; (d) consolidate its outstanding Shares into a smaller number of Shares or (e) re-classify any of its Shares into other securities of Loen, then the Exchange Price shall be appropriately adjusted so that the holder of any Bond, the Exchange Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 6.3.1, shall be entitled to receive the number of Shares and/or other securities of Loen which such holder would have held or have been entitled to receive after the occurrence of any of the events described above had

such Bond been exchanged immediately prior to the occurrence of such event (or, if Loen has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Shares or other securities issued upon any such sub-division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Exchange Price made with effect from the date of the occurrence of such event (or such record date) or any time thereafter.

Effective date of adjustment: An adjustment made pursuant to this Condition 6.3.1 shall become effective immediately on the relevant event referred to above becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a free distribution or bonus issue of Shares which must, under applicable laws of Korea, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of Loen before being legally paid or made, and which is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution or issue, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

6.3.2 Declaration of Dividend in Shares:

Adjustment: If Loen shall issue Shares as a dividend in Shares or make a distribution of Shares which is treated as a capitalization issue for accounting purposes under generally accepted international financial reporting standards (“IFRS”) (including, but not limited to, capitalization of capital reserves and employee stock bonus), then the Exchange Price in effect when such dividend and/or distribution is issued (or, if Loen has fixed a prior record date for the determination of shareholders entitled to receive such dividend and/or distribution, on such record date) shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N}{N+n} \right]$$

where:

- NEP = the Exchange Price after such adjustment.
- OEP = the Exchange Price before such adjustment.
- N = the number of Shares outstanding, immediately before the issuance of such dividend and/or distribution (or at the close of business in Seoul on such record date as the case may be).
- n = the number of Shares to be distributed to the shareholders as a dividend and/or distribution.

Effective date of adjustment: An adjustment made pursuant to this Condition 6.3.2 shall become effective immediately on the relevant event referred to in this Condition 6.3.2 becoming effective or, if a record date is fixed therefor, immediately after such record date; provided that in the case of a dividend in Shares which must, under applicable laws of Korea, be submitted for approval to a general meeting of shareholders of Loen or be approved at a meeting of the Board of Directors of Loen before being legally paid or made, and which is so approved after the record date fixed

for the determination of shareholders entitled to receive such dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date.

6.3.3 Concurrent Adjustment Events:

If Loen shall declare a dividend in, or make a free distribution or bonus issue of, Shares which dividend, issue or distribution is to be paid or made to shareholders as of a record date which is also:

- (i) the record date for the issue of any rights or warrants which requires an adjustment of the Exchange Price pursuant to Conditions 6.3.5, 6.3.6 or 6.3.7;
- (ii) the day immediately before the date of issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Exchange Price pursuant to Condition 6.3.9;
- (iii) the day immediately before the date of issue of any Shares which requires an adjustment of the Exchange Price pursuant to Condition 6.3.10 or, if applicable, the record date for determination of stock dividend entitlement as referred to in Condition 6.3.10;
- (iv) the day immediately before the date of issue of any rights, options or warrants which requires an adjustment of the Exchange Price pursuant to Condition 6.3.11; or
- (v) determined by the Issuer and notified by the Issuer to the Trustee in writing to be the relevant date for an event or circumstance which requires an adjustment to the Exchange Price pursuant to Condition 6.3.12,

then (except where such dividend, bonus issue or free distribution gives rise to a Retroactive Adjustment of the Exchange Price under this Condition 6.3.3) no adjustment of the Exchange Price in respect of such dividend, bonus issue or free distribution shall be made under Conditions 6.3.1 and 6.3.2, but in lieu thereof an adjustment shall be made under Conditions 6.3.5, 6.3.6, 6.3.7, 6.3.9, 6.3.10, 6.3.11 or 6.3.12 (as the case may require) by including in the denominator of the fraction described therein the aggregate number of Shares to be issued pursuant to such dividend, bonus issue or free distribution.

6.3.4 Capital Distribution and Cash Dividend:

Adjustment:

- (i) If Loen shall pay or make to its shareholders any Capital Distribution (as defined below), then the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{CMP - fmV}{CMP} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price (as defined in Condition 6.3.15 below) per Share on the last Trading Day preceding the date on which the relevant Dividend is first publicly announced.

fmv = the portion of the Fair Market Value (as defined below), with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase or redemption of Shares or any depository or other receipts or certificates representing shares by or on behalf of Loen, by the number of Shares in issue immediately prior to such purchase or redemption), of the Capital Distribution attributable to one Share less any consideration payable for the same to Loen by the shareholder.

(ii) If Loen shall pay or make to its shareholders any Cash Dividend, then, in such case, the Exchange Price shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{CMP - C}{CMP} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price (as defined in Condition 6.3.15 below) per Share on the last Trading Day preceding the date on which the relevant Dividend is first publicly announced.

C = the Cash Dividend attributable to one Share.

Effective date of adjustment

Any adjustment pursuant to this Condition 6.3.4 shall become effective immediately after the record date for the determination of shareholders entitled to receive the relevant Dividend; provided that (a) in the case of such a Dividend which must, under applicable law of Korea, be submitted for approval to a general meeting of shareholders or be approved by a meeting of the Board of Directors of Loen before such Dividend may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such Dividend, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) in the case of Condition 6.3.4(i), if the Fair Market Value of the relevant Capital Distribution cannot be determined until the record date fixed for the determination of shareholders entitled to receive the relevant Dividend, such adjustment shall, immediately upon such Fair Market Value being determined, become effective retroactively to immediately after such record date.

If such Dividend is not so paid, the Exchange Price shall again be adjusted to be the Exchange Price which would then be in effect if such Dividend had not been approved.

For the purposes of this Condition:

“Capital Distribution” means any Dividend other than a Cash Dividend.

In making any calculation for the purposes of this Condition 6.3.4, such adjustments (if any) shall be made as an independent investment or commercial bank of international repute selected by the Issuer and approved in writing by the Trustee, such approval not to be unreasonably withheld or delayed (an “Independent Financial Institution”) considers appropriate to reflect any consolidation, subdivision or re-classification of any Share or the issue of Shares by way of capitalization of profits or reserves, or any like or similar event or any adjustment to the Exchange Price. The fees of any Independent Financial Institution shall be at the expense of and paid by the Issuer.

“Cash Dividend” means (i) any Dividend which is to be paid in cash and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition “Dividend”, and for the avoidance of doubt, a Dividend falling within paragraph (c) of the definition “Dividend” shall be treated as not being a Cash Dividend.

“Dividend” means any dividend or distribution whether of cash or other property or assets or evidences of Loen’s indebtedness, whenever paid or made and however described (including any modification of rights to dividends of Shares); provided that:

- (a) where a Cash Dividend is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalization of profits or reserves is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the payment of a Dividend, then for the purposes of this definition, the Dividend in question shall be treated as a Dividend of (i) such Cash Dividend or (ii) the Fair Market Value (on the date of announcement of such Dividend or date of capitalization (as the case may be) or, if later, the date on which the number of Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined) of such Shares or other property or assets if such Fair Market Value is greater than the Fair Market Value of such Cash Dividend;
- (b) any issue or distribution of Shares falling within Condition 6.3.2 shall be disregarded; and
- (c) a purchase or redemption of ordinary share capital by or on behalf of Loen shall not constitute a Dividend unless, in the case of purchases of Shares by or on behalf of Loen, the volume weighted average price per Share (before expenses) on any one day in respect of such purchases exceeds the Current Market Price per Share either (1) on that day (or if such day is not a Trading Day, the immediately preceding Trading Day), or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of

shareholders of Loen or any notice convening such a meeting of shareholders) has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement, in which case such purchase shall be deemed to constitute a Dividend (but not a Cash Dividend) to the extent that the aggregate price paid (before expenses) in respect of such Shares purchased by or on behalf of Loen exceeds the product of (i) the Current Market Price per Share determined as aforesaid and (ii) the number of Shares so purchased; provided that (x) any purchase or redemption of ordinary share capital of Loen made to dissenting shareholders upon exercise by dissenting shareholders of their appraisal rights under the Korean Commercial Code and the Financial Investment Services and Capital Markets Act of Korea will not constitute a Dividend and (y) any purchase or redemption of ordinary share capital of Loen effectuated through the KRX KOSDAQ Market at the then Prevailing Market Price (as defined below) will not constitute a Dividend so long as any such purchase or redemption is made in accordance with Korean law and the rules and regulations of the Korea Exchange (without giving effect to any waivers that may be obtained therefrom), is not a general offer and will not trigger a requirement for a general offer under the rules of the Korea Exchange and does not constitute a Loen Tender Offer (as defined below).

“Fair Market Value” means, with respect to any asset, security, option, other right or property on any date, the fair market value of that asset, security, option, other right or property as determined in good faith by an Independent Financial Institution, provided that (i) the Fair Market Value of a Cash Dividend paid or to be paid shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be equal to such cash amount and (iii) where shares, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by the Independent Financial Institution) the fair market value of such shares, options, warrants or other rights shall equal the arithmetic mean of the daily volume weighted average prices of such shares, options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such shares, options, warrants or other rights are publicly traded and in the case of (i) translated into Korean Won to the extent not declared or paid in such currency, at the market average exchange rate effective for such trading day as announced by Seoul Money Brokerage Services, Ltd. or any successor entity, or if such market average exchange rate is not available, such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).

“Loen Tender Offer” means purchases or redemptions made by or on behalf of Loen or its Subsidiaries of 5% or more of the ordinary share capital of Loen in any twelve-month period.

“Prevailing Market Price” means the price prevailing on the relevant exchange on such day prior to the time that any purchase is made or any purchase order is placed by or on behalf of Loen.

6.3.5 Rights or Options Issued to Shareholders:

Adjustment: If Loen shall grant, issue or offer to the holders of Shares rights or options entitling them to subscribe for or purchase Shares:

- (a) at a consideration per Share receivable by Loen (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced; or
- (b) at a consideration per Share receivable by Loen which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or options or (in a case within (b) above) on the date Loen fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N+v}{N+n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea (in a case within (a) above) on such record date or (in a case within (b) above) on the date Loen fixes the said consideration.
- n = the number of Shares initially to be issued upon exercise of such rights or options at the said consideration being (aa) the number of Shares which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).
- v = the number of Shares which the aggregate consideration receivable by Loen (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective immediately after the latest date for the submission of applications for such Shares by shareholders entitled to the same pursuant to such rights or options or (if later) immediately after Loen fixes the said consideration but retroactively to immediately after the record date mentioned above.

Rights or Options not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of rights or options entitling them to subscribe for or purchase Shares, any Shares which are not subscribed for or purchased by the

persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such Shares, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Loen fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of rights or options entitling them to subscribe for or purchase Shares, any such Shares which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or options) who have submitted applications for such Shares as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

6.3.6 Warrants Issued to Shareholders:

Adjustment: If Loen shall grant, issue or offer to the holders of Shares warrants entitling them to subscribe for or purchase Shares:

- (a) at a consideration per Share receivable by Loen (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date for the determination of shareholders entitled to receive such warrants and is less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced; or
- (b) at a consideration per Share receivable by Loen which is fixed after the record date mentioned above and is less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such warrants or (in a case within (b) above) on the date Loen fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N+v}{N+n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea (in a case within (a) above) on such record date or (in a case within (b) above) on the date Loen fixes the said consideration.
- n = the number of Shares to be issued upon exercise of such warrants at the said consideration which, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants

issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (aa) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa).

- v = the number of Shares which the aggregate consideration receivable by Loen (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (i) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (ii) where applications by shareholders entitled to the same are required as aforesaid, immediately after the latest date for the submission of such applications or (if later) immediately after Loen fixes the said consideration but in all cases retroactively to immediately after the record date mentioned above.

Warrants not subscribed for by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares in the circumstances described in (a) and (b) of this Condition 6.3.6, any warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Loen fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares of warrants entitling them to subscribe for or purchase Shares, any warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred the right to purchase such warrants) who have submitted applications for such warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

6.3.7 Issues of Rights or Warrants for Equity-related Securities to Shareholders:

Adjustment: If Loen shall grant, issue or offer to the holders of Shares rights or warrants entitling them to subscribe for or purchase any securities convertible into or exchangeable for Shares:

- (a) at a consideration per Share receivable by Loen (determined as provided in Condition 6.3.16) which is fixed on or prior to the record date mentioned below and is less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced; or

- (b) at a consideration per Share receivable by Loen (determined as aforesaid) which is fixed after the record date mentioned below and is less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced,

then the Exchange Price in effect (in a case within (a) above) on the record date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (b) above) on the date Loen fixes the said consideration shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N+v}{N+n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

- N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea (in a case within (a) above) on such record date or (in a case within (b) above) on the date Loen fixes the said consideration.
- n = the number of Shares initially to be issued upon exercise of such rights or warrants and conversion or exchange of such convertible or exchangeable securities at the said consideration being, in the case of rights, (aa) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities which the underwriters have agreed to underwrite as referred to below or, as the case may be, (bb) the number of Shares initially to be issued upon conversion or exchange of the number of such convertible or exchangeable securities for which applications are received from shareholders as referred to below save to the extent already adjusted for under (aa) and which, in the case of warrants, where no applications by shareholders entitled to such warrants are required, shall be based on the number of warrants issued. Where applications by shareholders entitled to such warrants are required, the number of such Shares shall be calculated based upon (x) the number of warrants which underwriters have agreed to underwrite as referred to below or, as the case may be; (y) the number of warrants for which applications are received from shareholders as referred to below save to the extent already adjusted for under (x).
- v = the number of Shares which the aggregate consideration receivable by Loen (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share specified in (a) or, as the case may be, (b) above.

Effective date of adjustment: Subject as provided below, such adjustment shall become effective (a) where no applications for such warrants are required from shareholders entitled to the same, upon their issue and (b) where applications by shareholders entitled to the warrants are required as aforesaid and in the case of convertible or exchangeable securities by shareholders entitled to the same pursuant

to such rights, immediately after the latest date for the submission of such applications or (if later) immediately after Loen fixes the said consideration; but in all cases retroactively to immediately after the record date mentioned above.

Rights or warrants not taken up by shareholders: If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares in the circumstances described in this Condition 6.3.7, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the shareholders entitled thereto are underwritten by others prior to the latest date for the submission of applications for such convertible or exchangeable securities or warrants, an adjustment shall be made to the Exchange Price in accordance with the above provisions which shall become effective immediately after the date the underwriters agree to underwrite the same or (if later) immediately after Loen fixes the said consideration but retroactively to immediately after the record date mentioned above.

If, in connection with a grant, issue or offer to the holders of Shares or rights or warrants entitling them to subscribe for or purchase securities convertible into or exchangeable for Shares, any convertible or exchangeable securities or warrants which are not subscribed for or purchased by the underwriters who have agreed to underwrite as referred to above or by the shareholders entitled thereto (or persons to whom shareholders have transferred such rights or the right to purchase such warrants) who have submitted applications for such convertible or exchangeable securities or warrants as referred to above are offered to and/or subscribed by others, no further adjustment shall be made to the Exchange Price by reason of such offer and/or subscription.

6.3.8 Other Distributions to Shareholders:

Adjustment: If Loen shall distribute to the holders of Shares or capital stock of Loen (other than Shares), assets (excluding any Dividends), or rights or warrants to subscribe for or purchase Shares or securities (excluding those rights and warrants referred to in Conditions 6.3.5, 6.3.6 and 6.3.7), then the Exchange Price in effect on the record date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{CMP - fmv}{CMP} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

CMP = the Current Market Price per Share on the last Trading Day preceding the date on which such distribution is first publicly announced.

fmv = the Fair Market Value of the distribution applicable to one Share less any consideration payable for the same to Loen by the shareholder.

Effective date of adjustment: Such adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution. Provided that (a) in the case of such a distribution which must, under applicable law of Korea, be submitted for approval to a general meeting of

shareholders or be approved by a meeting of the Board of Directors of Loen before such distribution may legally be made and is so approved after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given by such meeting, become effective retroactively to immediately after such record date and (b) if the Fair Market Value of the shares of capital stock, assets, rights or warrants so distributed cannot be determined until after the record date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such Fair Market Value being determined, become effective retroactively to immediately after such record date.

6.3.9 Issue of Convertible or Exchangeable Securities other than to Shareholders or on Exercise of Warrants:

Adjustment: If Loen shall issue any securities convertible into or exchangeable for Shares (except in any of the circumstances described in Condition 6.3.7 and Condition 6.3.11) or grant such rights in respect of any existing securities and the consideration per Share receivable by Loen (determined as provided in Condition 6.3.16) shall be less than the Current Market Price per Share on the last Trading Day preceding the date on which such issue or grant is first publicly announced, then the Exchange Price in effect immediately prior to the date of issue of such convertible or exchangeable securities shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N + v}{N + n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea on the day immediately prior to the date of such issue.

n = the number of Shares to be issued upon conversion or exchange of such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by Loen would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in Korea corresponding to the calendar day at the place of issue on which such convertible or exchangeable securities are issued.

6.3.10 Other Issues of Shares:

Adjustment: If Loen shall issue any Shares (other than Shares issued upon conversion or exchange of any convertible or exchangeable securities issued by Loen or upon exercise of any rights, options or warrants granted, offered or issued by Loen or in any of the circumstances described in any preceding provision of this Condition 6.3), for a consideration per Share receivable by Loen (determined as provided in Condition

6.3.16) less than the Current Market Price per Share on the last Trading Day preceding the date on which such issue is first publicly announced, then the Exchange Price in effect immediately prior to the issue of such additional Shares shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N + v}{N + n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea on the day immediately prior to the date of issue of such additional Shares.

n = the number of additional Shares issued as aforesaid.

v = the number of Shares which the aggregate consideration receivable by Loen (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in Korea of the issue of such additional Shares.

6.3.11 Issue of Equity-related Securities:

Adjustment: If Loen shall grant, issue or offer options, warrants or rights (excluding those rights, options and warrants referred to in Conditions 6.3.5, 6.3.6, 6.3.7 and 6.3.8) to subscribe for or purchase Shares or securities convertible into or exchangeable for Shares and the consideration per Share receivable by Loen (determined as provided in Condition 6.3.16) shall be less than the Current Market Price per Share on the last Trading Day preceding the date on which such grant, issue or offer is first publicly announced, then the Exchange Price in effect immediately prior to the date of the offer, grant or issue of such rights, options or warrants shall be adjusted in accordance with the following formula:

$$NEP = OEP \times \left[\frac{N + v}{N + n} \right]$$

where:

NEP and OEP have the meanings ascribed thereto in Condition 6.3.2.

N = the number of Shares outstanding (having regard to Condition 6.3.17) at the close of business in Korea on the day immediately prior to the date of such issue.

- n = the number of Shares to be issued on exercise of such rights, options or warrants and (if applicable) conversion or exchange of such convertible or exchangeable securities at the said consideration.
- v = the number of Shares which the aggregate consideration receivable by Loen (determined as provided in Condition 6.3.16) would purchase at such Current Market Price per Share.

Effective date of adjustment: Such adjustment shall become effective as of the calendar day in Korea corresponding to the calendar day at the place of issue on which such rights, options or warrants are issued.

6.3.12 Analogous Events and Modifications:

If (a) the rights of conversion or exchange, purchase or subscription attaching to any options, rights or warrants to subscribe for or purchase Shares or any securities convertible into or exchangeable for, or which carry rights to subscribe for or purchase Shares are modified (other than pursuant to and as provided in the terms and conditions of such options, rights, warrants or securities as originally issued) or (b) the Issuer determines that any other event or circumstance has occurred which has or would have an effect on the position of the Bondholders as a class compared with the position of the holders of all the securities (and options and rights relating thereto) of Loen, taken as a class which is analogous to any of the events referred to in Conditions 6.3.1 to 6.3.11, then, in any such case, the Issuer shall promptly notify the Trustee in writing thereof and the Issuer shall consult with an Independent Financial Institution as to what adjustment, if any, should be made to the Exchange Price to preserve the value of the Exchange Right of Bondholders and will make any such adjustment. All costs, charges, liabilities and expenses incurred in connection with the appointment, retention, consultation and remuneration of any Independent Financial Institution appointed under the Conditions shall be borne by the Issuer.

6.3.13 Simultaneous Issues of Different Classes of Shares:

In the event of simultaneous issues of two or more classes of share capital comprising Shares or rights or warrants in respect of, or securities convertible into or exchangeable for, two or more classes of share capital comprising Shares, then, for the purposes of this Condition, the formula

$$NEP = OEP \times \left[\frac{N+v}{N+n} \right]$$

shall be restated as

$$NEP = OEP \times \left[\frac{N+v1+v2+v3}{N+n1+n2+n3} \right]$$

where v1 and n1 shall have the same meanings as “v” and “n” but by reference to one class of Shares, v2 and n2 shall have the same meanings as “v” and “n” but by reference to a second class of Shares, v3 and n3 shall have the same meanings as “v” and “n” but by reference to a third class of Shares and so on.

6.3.14 No Adjustment for Certain Issuances to Directors, Officers or Employees:

Notwithstanding any provision herein to the contrary, a grant, issue or offer of Shares, options, rights, warrants or other securities to any director, officer or employee of Loen as part of such person's compensation will not result in the adjustment of the Exchange Price; provided that (i) the number of Shares so issued or that may be issued as a result of the conversion, exchange or exercise of such convertible or exchangeable securities or such options, rights or warrants so granted, issued or offered, together with the total number of Shares issued to such directors, officers and employees and that may be issued (on conversion, exchange or exercise) as a result of all such grants, issues and offers to such directors, officers and employees subsequent to the Closing Date, does not exceed 1% of the total number of Shares outstanding immediately prior to such grant, issue or offer and (ii) all such grants, issues and offers are made pursuant to employee stock ownership or grant plans or option scheme or plans which are in compliance with applicable Korean laws and regulations and the rules of the Korea Exchange or if applicable, the rules of the Alternative Stock Exchange.

6.3.15 Certain Definitions:

For the purposes of these Conditions:

"Alternative Stock Exchange" means at any time, in the case of the Shares or any securities comprising the Exchange Property, if they are not at that time listed and traded on the KRX KOSDAQ Market, the principal stock exchange or securities market on which the Shares or such securities are then listed or quoted or dealt in.

"Closing Price" of the Shares for each Trading Day shall be the last reported transaction price of the Shares on the KRX KOSDAQ Market for such day or, if no transaction takes place on such day, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the KRX KOSDAQ Market selected from time to time by the Issuer.

"Current Market Price" per Share on any date means the arithmetic average of the daily Closing Prices of the relevant Shares for the twenty consecutive Trading Days (as defined below) ending on and including the Trading Day immediately preceding such date. If Loen has more than one class of share capital comprising Shares, then the relevant Current Market Price for Shares shall be the price for that class of Shares the issue of which (or of rights, options or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment in question.

If during the said twenty Trading Days or any period thereafter up to but excluding the date as of which the adjustment of the Exchange Price shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment to the Exchange Price under the provisions of these Conditions, then the Current Market Price as determined above shall be adjusted in such manner and to such extent as an Independent Financial Institution shall in its absolute discretion deem appropriate and fair to compensate for the effect thereof.

"Trading Day" means a day when the KRX KOSDAQ Market is open for business, but does not include a day when (a) no such last transaction price or closing bid and

offered prices is/are reported and (b) (if the Shares are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid.

If the Shares are no longer listed on the KRX KOSDAQ Market and have been listed on an Alternative Stock Exchange, references in the above definitions to the KRX KOSDAQ Market will be taken as references to the Alternative Stock Exchange; provided that, as necessary, Closing Prices on such exchanges will be translated into Korean Won at the Prevailing Rate. The "Prevailing Rate" applicable to any Trading Day shall be the market average exchange rate effective for such Trading Day as announced by Seoul Money Brokerage Services, Ltd. or any successor entity, or if such market average exchange rate is not available, such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available) for exchanges of Korean Won and the applicable currency.

6.3.16 Consideration Receivable by Loen:

For the purposes of any calculation of the consideration receivable by Loen pursuant to Conditions 6.3.5, 6.3.6, 6.3.7, 6.3.8, 6.3.9, 6.3.10, 6.3.11, 6.3.12 and 6.3.13 above, the following provisions shall be applicable:

- (a) in the case of the issue of Shares for cash, the consideration shall be the amount of such cash;
- (b) in the case of the issue of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the Fair Market Value thereof;
- (c) in the case of the issue (whether initially or upon the exercise of rights or warrants) of securities convertible into or exchangeable for Shares, the aggregate consideration receivable by Loen shall be deemed to be the consideration received by Loen for such securities and (if applicable) rights or warrants plus the additional consideration (if any) to be received by Loen upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as provided in this Condition 6.3.16) and the consideration per Share receivable by Loen shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price;
- (d) in the case of the issue of rights, options or warrants to subscribe for or purchase Shares, the aggregate consideration receivable by Loen shall be deemed to be the consideration received by Loen for any such rights, options or warrants plus the additional consideration to be received by Loen upon (and assuming) the exercise of such rights, options or warrants at the initial subscription or purchase price (the consideration in each case to be determined in the same manner as

provided in this Condition 6.3.16) and the consideration per Share receivable by Loen shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) the exercise of such rights, options or warrants at the initial subscription or purchase price;

- (e) if any of the consideration referred to in any of the preceding paragraphs of this Condition 6.3.16 is receivable in a currency other than Korean Won, such consideration shall (in any case where there is a fixed rate of exchange between the Korean Won and the relevant currency for the purposes of the issue of the Shares, the conversion or exchange of such securities or the exercise of such rights, options or warrants) be translated into Korean Won for the purposes of this Condition 6.3.16 at such fixed rate of exchange and shall (in all other cases) be translated into Korean Won at the market average exchange rate as announced by Seoul Money Brokerage Services, Ltd. or any successor entity effective for such date as of which the said consideration is required to be calculated as aforesaid, or if such market average exchange rate is not available, such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on such date, for exchanges of Korean Won and the applicable currency;
- (f) in the case of the issue of Shares (including, without limitation, to employees under any employee bonus or profit sharing arrangements) credited as fully paid out of retained earnings or capitalization of reserves at their par value, the aggregate consideration receivable by Loen shall be deemed to be zero (and accordingly the number of Shares which such aggregate consideration receivable by Loen could purchase at the relevant Current Market Price per Share shall also be deemed to be zero); and
- (g) in making any such determination, no deduction shall be made for any commissions or any expenses paid or incurred by Loen.

6.3.17 Cumulative Adjustments:

If, at the time of computing an adjustment (the "later adjustment") of the Exchange Price pursuant to any of Conditions 6.3.2, 6.3.5, 6.3.6, 6.3.7, 6.3.9, 6.3.10, 6.3.11, 6.3.12 and 6.3.13 above, the Exchange Price already incorporates an adjustment made (or taken or to be taken into account pursuant to the proviso to Condition 6.3.18) to reflect an issue of Shares or of securities convertible into or exchangeable for Shares or of rights, options or warrants to subscribe for or purchase Shares or securities, to the extent that the number of such Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of such Shares in issue at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such excess Shares shall be deemed to be outstanding for the purposes of making such computation.

6.3.18 Minor Adjustments:

No adjustment of the Exchange Price shall be required if the adjustment would be less than 1% of the then current Exchange Price; provided that any adjustment which by

reason of this Condition 6.3.18 is not required to be made shall be carried forward and taken into account (as if such adjustment had been made at the time when it would have been made but for the provisions of this Condition 6.3.18) in any subsequent adjustment. All calculations under this Condition 6.3 shall be rounded to the nearest KRW1 with KRW0.5 being rounded up to the next KRW1. Except as otherwise set out in Condition 6.3.19, the Exchange Price may be reduced at any time by the Issuer

6.3.19 Minimum Exchange Price:

Notwithstanding the provisions of this Condition, the Issuer covenants that:

- (a) the Exchange Price shall not be reduced below the par value of the Shares (KRW500 at the date hereof) as a result of any adjustment made hereunder unless, under applicable law then in effect, Bonds may be exchanged at such reduced Exchange Price into legally issued, fully-paid and non-assessable Shares; and
- (b) it will procure Loen not to take any corporate or other action which might result in the Exchange Price being reduced pursuant to this Condition 6 below the level permitted by (i) applicable Korean laws and regulations from time to time (if any) or (ii) applicable Korean regulatory authorities where the approval of such regulatory authority has not been obtained.

6.3.20 Reference to “fixed”:

Any references herein to the date on which a consideration is “fixed” shall, where the consideration is originally expressed by reference to a formula which cannot be expressed as an actual cash amount until a later date, be construed as a reference to the first day on which such actual cash amount can be ascertained.

6.3.21 Upward Adjustment:

No adjustment involving an increase in the Exchange Price will be made, except (a) in the case of a consolidation or a re-classification of the Shares, after which the number of Shares outstanding has decreased, as referred to in Condition 6.3.1, (b) in the case of a capital reduction, immediately after which the value of the Shares outstanding has increased as a result or (c) in the case of an occurrence of any event similar to the foregoing, immediately after which the value of the Shares outstanding has increased as a result.

6.3.22 Trustee not Obligated to Monitor:

Neither the Trustee nor the Agents shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Exchange Price under this Condition 6.3, or be under any duty to calculate, make or check any adjustment to the Exchange Price, and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

6.3.23 Notice to Trustee:

The Issuer shall send the Trustee and the Agents a certificate signed by a duly authorized officer of the Issuer setting out particulars relating to adjustment of the Exchange Price and the Exchange Price after such adjustment and the effective date thereof.

6.3.24 Independent Financial Institution:

If the Issuer fails to select an Independent Financial Institution when required in this Condition 6.3 and Condition 6.1.6, the Trustee may (at its absolute discretion and at the expense of the Issuer) select such an Independent Financial Institution.

6.4 Undertakings

6.4.1 The Issuer has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

- (i) it will use its best efforts to (a) obtain and maintain a listing of the Bonds on the SGX-ST; (b) procure that Loen maintains a listing for all the issued Shares on the KRX KOSDAQ Market; (c) procure that Loen obtains and maintains a listing for all the Shares to be delivered on the exercise of the Exchange Rights attaching to the Bonds on the KRX KOSDAQ Market and (d) if the Issuer or Loen is unable to obtain or maintain such listings, obtain and maintain a listing for all the Bonds and the Shares to be delivered on the exercise of the Exchange Rights, on an Alternative Stock Exchange and will forthwith give notice to the Bondholders in accordance with Condition 17, and to the Guarantor, of the listing or delisting of the Shares or the Bonds (as a class) by any of such stock exchanges;
- (ii) it will deposit the number of Shares (or Exchange Property Securities, as applicable) that are deliverable upon exchange of all outstanding Bonds (as adjusted from time to time in tandem with the Exchange Price pursuant to Condition 6.3) with the KSD and will not transfer, or create or attempt to create, assume or permit to subsist, any mortgage, charge, pledge, hypothecation, lien or other encumbrance over, such Shares or any Exchange Property (other than an encumbrance over the right of the Issuer to receive such Shares or any Exchange Property upon redemption of the Bonds, created for the benefit of the Guarantor as consideration for providing the Guarantee of the Bonds, enforceable by the Guarantor if it is required to make payments thereunder);
- (iii) it will pay the expenses of the delivery of, and all expenses of obtaining listing for, Shares (or Exchange Property Securities, as applicable) arising on exchange of the Bonds, except for Taxes payable by a Bondholder pursuant to Condition 6.2.2;

- (iv) it will procure Loen not to make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund (except, in each case, as permitted by applicable law and that results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) a downward adjustment to the Exchange Price or is otherwise taken into account for the purposes of determining whether such a downward adjustment should be made);
- (v) it will procure Loen not to take any action described in clause (b) or (c) of Condition 6.3.21 which would result in an increase in the Exchange Price; and
- (vi) it will procure Loen not to make any offer, issue or distribute or take any action the effect of which would be to reduce the Exchange Price below the par value of the Shares of Loen; provided always that Loen shall not be prohibited from purchasing its Shares to the extent permitted by law.

6.4.2 The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Exchange Rights.

6.5 Notice of Change in Exchange Prices

The Issuer shall give notice to the Bondholders in accordance with Condition 17 and to the Guarantor and, for so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall also give notice to the SGX-ST, of any adjustment to the Exchange Price. Any such notice relating to an adjustment to the Exchange Price shall set forth the event giving rise to the adjustment, the Exchange Price prior to such adjustment, the adjusted Exchange Price and the effective date of such adjustment.

6.6 Voting and Other Rights

Pending exercise of the Exchange Right, the Issuer will be entitled to exercise the voting and other rights attaching to the Shares or the Exchange Property Securities, as applicable, on all matters submitted to the holders of Shares or of any Exchange Property Securities. The holders of the Bonds shall have no voting or other rights attaching to the Shares or Exchange Property Securities prior to their registration as holders of Shares or of any Exchange Property Securities.

7. **PAYMENTS**

7.1 U.S. Dollar Settlement

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Issuer or the Guarantor (as the case may be) shall be payable and settled in U.S. dollars only.

For the purposes of these Conditions, “U.S. Dollar Equivalent” means in respect of a Korean Won-denominated amount that, but for this Condition 7.1, would be due under the Bonds in Korean Won, the Korean Won amount converted into U.S. dollars, by dividing the Korean Won amount by the Spot Rate on the relevant Rate Calculation Date.

For purposes of these Conditions,

“Rate Calculation Date” means the day which is three business days before the due date of the relevant amount under these Conditions;

“Reference Dealers” means four leading dealers engaged in the foreign exchange market of the relevant currency selected by the Principal Agent; and

“Spot Rate,” on each Rate Calculation Date, means a rate determined by the Issuer in good faith as follows:

- (a) the USD-KRW official fixing rate, expressed as the market average rate of the amount of Korean Won per one U.S. dollar, reported by Seoul Money Brokerage Services, Ltd. which appears on the Reuters Screen “KFTC18” Page against the column “USD Today” at or about 3:30 p.m. (Seoul time) on the Rate Calculation Date (referred to as “*mae-mae-gi-jun-ryul*” in Korean);
- (b) if no such rate is available under sub-paragraph (a), the spot rate determined by the Issuer in good faith on the basis of quotations provided by the Reference Dealers of the specified exchange rate for the Rate Calculation Date as obtained in accordance with the provisions below; and
- (c) if fewer than two quotations are provided under sub-paragraph (b), the exchange rate for the Rate Calculation Date as shall be determined by an Independent Financial Institution in good faith.

In determining the spot rate under sub-paragraph (b), the Issuer will request the Seoul office of each of the Reference Dealers to provide a quotation of what the specified screen rate would have been had it been published, reported or available for the Rate Calculation Date, based upon each Reference Dealer’s experience in the foreign exchange market for Korean Won and general activity in such market on the Rate Calculation Date. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each case for such Rate Calculation Date, and will be requested at 3:30 p.m. (Seoul time) on such Rate Calculation Date or as soon as practicable after it is determined that the specified screen rate was not available.

If four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates, without regard to the rates having the highest and lowest value. For this purpose, if more than one quotation has the same highest value or lowest value, then the rate of only one of such quotations shall be disregarded. If two or three quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates provided.

As soon as practicable after the Spot Rate has been determined, the Issuer will notify the Principal Agent by email or facsimile of the Spot Rate and the applicable U.S. Dollar Equivalent on the Rate Calculation Date.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7.1, whether by the Reference Dealers (or any of them), the Issuer or the Independent Financial Institution, will (in the absence of fraud, wilful misconduct or gross negligence) be binding on the Issuer, the Trustee, the Agents and all Bondholders.

7.2 Method of Payment

Payment of principal and default interest (if any) will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed

to the registered address of the Bondholder if it does not have a registered account, in each case, in accordance with provisions of the Agency Agreement. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) paid.

7.3 Registered Accounts

For the purposes of this Condition, a Bondholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second business day (as defined in Condition 7.7) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

7.4 Applicable Laws

All payments to be made to Bondholders by or on behalf of the Issuer or the Guarantor (as the case may be) are subject in all cases to (i) any applicable laws and regulations in any applicable jurisdiction, but without prejudice to the provisions of Condition 9 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 9) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

7.5 Payment Initiation

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined in Condition 7.7), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an Alternative Clearing System (as defined in the form of the Global Certificate), payments of principal of the Bonds are expected to be made by transfer through Euroclear or Clearstream or the Alternative Clearing System.

7.6 Default Interest and Delay in Payment

7.6.1 If the Issuer (failing which, the Guarantor) fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum (both before and after any judgment) at the rate of 3% per annum from the due date up to the date on which payment in full of all sums due and unpaid in respect of the Bonds is made. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year and shall be payable in U.S. dollars at the U.S. Dollar Equivalent.

7.6.2 Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder 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.

7.7 Business Day

In this Condition 7, “business day” means a day other than a Saturday or Sunday on which commercial banks are open for business in New York City, Seoul and London and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

8. REDEMPTION, PURCHASE AND CANCELLATION

8.1 Maturity

Unless previously redeemed, exchanged or repurchased and cancelled as provided herein, the Issuer will redeem each Bond at the U.S. Dollar Equivalent of 100.00% of its principal amount on May 11, 2021 (the “Maturity Date”). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8.2 or Condition 8.3 below (but without prejudice to Condition 10).

8.2 Redemption at the Option of the Issuer

8.2.1 On or at any time after May 11, 2019 but not less than 30 business days prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days’ notice in accordance with Condition 17 to the Bondholders, the Guarantor, the Trustee and the Principal Agent (which notice will be irrevocable), redeem the Bonds in whole but not in part at the U.S. Dollar Equivalent of 100.00% of their aggregate principal amount on the date fixed for redemption; provided that no such redemption may be made unless the Closing Price of the Shares for each of 20 Trading Days in the period of 30 consecutive Trading Days ending on the Trading Day immediately prior to the date upon which notice of such redemption is given pursuant to Condition 17, was at least 130% of the prevailing Exchange Price. Upon expiry of such notice, the Issuer shall be bound to redeem such Bonds in accordance with this Condition. If there shall occur an event giving rise to a change in the Exchange Price during any such 20 consecutive Trading Day period, appropriate adjustments for the relevant days approved by two independent investment banks (acting as experts) selected by the Issuer (at the expense of the Issuer) and approved in writing by the Trustee, such approval not to be unreasonably withheld or delayed, shall be made for the purpose of calculating the Closing Price for such days.

8.2.2 If at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued (including any Bonds issued pursuant to Condition 16), the Issuer shall have the option to redeem such outstanding Bonds in whole but not in part at the U.S. Dollar Equivalent of 100.00% of their aggregate principal amount on the date fixed for redemption. The Issuer will give at least 30 days’ but not more than 60 days’ prior notice pursuant to Condition 17 to the Bondholders, the Guarantor, the Trustee and the Principal Agent for such redemption. Upon expiry of such notice, the Issuer shall be bound to redeem such Bonds in accordance with this Condition.

8.3 Redemption for Taxation Reasons

- 8.3.1 Subject to Condition 8.3.3, at any time the Issuer may, having given not less than 30 nor more than 60 days' notice to the Guarantor, the Trustee, the Principal Agent and the Bondholders (which notice shall be irrevocable) redeem the Bonds in whole but not in part at the U.S. Dollar Equivalent of 100.00% of their aggregate principal amount on the date fixed for redemption ("Tax Redemption Date"), if (i) the Issuer provides to the Trustee immediately prior to the giving of such notice an opinion in form and substance satisfactory to the Trustee of independent legal counsel of recognized international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and that the Issuer has or will become obliged to pay Additional Amounts pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of Korea or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after May 11, 2016 and (ii) such obligation cannot be avoided by the Issuer taking all reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) an officer's certificate signed by the chief financial officer, chief accounting officer or chief executive officer of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer (taking all reasonable measures available to it) and (b) the opinion of counsel referred to in (i) above and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof, in which event it shall be conclusive and binding on the Bondholders.
- 8.3.2 Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds at the U.S. Dollar Equivalent of 100.00% of their aggregate principal amount.
- 8.3.3 If the Issuer gives a notice of redemption pursuant to this Condition 8.3, each Bondholder will have the right to elect that all or a portion of its Bond(s) (in integral multiples of KRW200,000,000) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no, subject to the following sentence, Additional Amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the government of Korea or any authority thereof or therein having power to tax. For the avoidance of doubt, any Additional Amounts which had been payable in respect of the Bonds as a result of the laws or regulations of the government of Korea or any authority thereof or therein having power to tax prior to May 11, 2016 will continue to be payable to such Bondholders. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of non-redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent on or before the day falling 15 days prior to the Tax Redemption Date.

8.4 Redemption for Change of Control

- 8.4.1 Following the occurrence of a Change of Control (as defined below) and to the extent permitted by applicable law, each Bondholder will have the right at such holder's option to require the Issuer to redeem all or a portion of such holder's Bonds (in integral multiples of KRW200,000,000) on the Change of Control Put Date at the U.S. Dollar Equivalent of 100.00% of the principal amount of such Bonds to be redeemed. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent ("Change of Control Put Exercise Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than ten business days prior to the Change of Control Put Date. The "Change of Control Put Date" shall be the date set by the Issuer for such redemption, which shall not be less than 30 days nor more than 60 days after the occurrence of a Change of Control.

For the purposes of this Condition 8.4.1,

"control" means, with respect to any person, (a) the acquisition or control of more than 50 per cent. of the Voting Rights of the issued share capital of such person or (b) the right to appoint and/or remove all or the majority of the members of such person's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a "Change of Control" occurs when:

(a) any person or persons (other than a Kakao Permitted Entity) directly or indirectly, acting together, acquires control, directly or indirectly, of Loen;

(b) Loen consolidates with, or merges into, any other person, except where a Kakao Permitted Entity has control of the surviving person after such transaction; or

(c) Loen sells or transfers all or substantially all of its assets to any other person or persons, acting together (other than a Kakao Permitted Entity).

a "Kakao Permitted Entity" means the Issuer or any of its Subsidiaries;

a "person" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organization, trust, state or agency of a state (in each case whether or not being a separate legal entity); and

"Voting Rights" means the right generally to vote at a general meeting of shareholders (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

- 8.4.2 A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

- 8.4.3 The Trustee shall not be required to monitor or take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

8.4.4 No later than seven days after becoming aware of a Change of Control, the Issuer shall procure that a Change of Control Notice shall be delivered to the Guarantor, the Trustee and the Bondholders in accordance with Condition 17 stating (i) the Bondholders' entitlement to exercise their Exchange Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to this Condition; (ii) the Change of Control Put Date; (iii) the date of such Change of Control, the events causing such Change of Control and all information material to Bondholders concerning the Change of Control; (iv) the date by which the Change of Control Put Exercise Notice (as defined above) must be given; (v) the redemption amount and the method by which such amount will be paid; (vi) the names and addresses of all Paying Agents; (vii) the Exchange Price immediately prior to the occurrence of the Change of Control and the Exchange Price applicable pursuant to Condition 6.6 during the Change of Control Period; (viii) the Closing Price of the Shares as derived from the relevant stock exchange as at the latest practicable date prior to the publication of the Change of Control Notice; (ix) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Change of Control Put Right or Exchange Right and (x) that a Change of Control Put Exercise Notice, once validly given, may not be withdrawn.

8.5 Delisting Put Right

8.5.1 In the event the Shares cease to be listed or admitted to trading or are suspended for a period equal to or exceeding 30 consecutive Trading Days on the KRX KOSDAQ Market (a "Delisting") each Bondholder shall have the right (the "Delisting Put Right"), at such Bondholder's option, to require the Issuer to redeem all or a portion of such Bondholder's Bonds (in integral multiples of KRW200,000,000) on the date set by the Issuer for such redemption, which shall not be less than 30 days nor more than 60 days after the occurrence of a Delisting, or, if later, the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 8.5.2 below (the "Delisting Put Date") at the U.S. Dollar Equivalent of 100.00% of the principal amount of such Bonds to be redeemed (the "Delisting Put Price").

8.5.2 Promptly after becoming aware of a Delisting but no later than seven days after becoming aware of a Delisting, the Issuer shall procure that notice regarding the Delisting Put Right shall be given to the Guarantor, the Trustee and the Bondholders in accordance with Condition 17 stating:

- (i) the Delisting Put Date;
- (ii) the date of such Delisting and, briefly, the events causing such Delisting;
- (iii) the date by which the Purchase Notice (as defined below) must be given;
- (iv) the Delisting Put Price and the method by which such amount will be paid;
- (v) the names and addresses of all Paying Agents;
- (vi) the Exchange Right and the then current Exchange Price;

- (vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Delisting Put Right or Exchange Right; and
- (viii) that a Purchase Notice, once validly given, may not be withdrawn.

8.5.3 To exercise its rights to require the Issuer to redeem or purchase (subject to applicable laws) its Bonds, the Bondholder must deliver a written irrevocable notice of the exercise of such right (a "Purchase Notice"), in the then current form obtainable from the specified office of any Agent, to any Paying Agent on any business day prior to the close of business at the location of such Paying Agent on such day and which day is not less than 10 business days prior to the Delisting Put Date.

8.5.4 A Purchase Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Delisting Notices delivered as aforesaid on the Delisting Put Date.

8.5.5 The Trustee shall not be required to monitor or take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

8.5.6 For the purposes of this Condition 8.5, "business day" shall mean a day on which commercial banks are open for business in London and Seoul.

8.6 Redemption at the Option of the Bondholders

The Issuer will, at the option of the holder of any Bond, redeem all or a portion of that holder's Bonds (in integral multiples of KRW200,000,000) on May 11, 2019 (the "Put Option Date"), at the U.S. Dollar Equivalent of 100.00% of the principal amount of such Bonds to be redeemed. To exercise such right, the holder of the relevant Bond must complete, sign and deliver to the specified office of any Paying Agent a duly completed and signed notice (the "Put Option Notice") together with the Certificate evidencing the Bonds to be redeemed not less than 30 days nor more than 60 days prior to the Put Option Date.

A Put Option Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of a Put Option Notice delivered as aforesaid on the Put Option Date.

8.7 Redemption Following Exercise of a Put Option

Upon the exercise of any put option specified in Condition 8.4, 8.5 or 8.6, payment of the applicable redemption amount shall be conditional upon (i) the Issuer obtaining all approvals required by law and (ii) delivery of the Bondholder's Certificate (together with any necessary endorsements) to any Paying Agent on any business day together with the delivery of any other document(s) required by these Conditions, and will be made on the later of the date set for redemption and promptly following the time of delivery of such Certificate. If the Paying Agent holds on the Put Date (as defined below) money sufficient to pay the applicable redemption monies of Bonds for which notices have been delivered in accordance with the provisions hereof upon exercise of such right, then, whether or not such Certificate is delivered to the Paying Agent, on and after such Put Date, (a) such Bond will cease to be outstanding; (b) such Bond will be deemed paid and (c) all other rights of the Bondholder shall terminate (other than the right to receive the applicable redemption monies). "Put Date" shall mean the Change of Control Put Date, the Delisting Put Date or the Put Option Date, as applicable.

8.8 Purchases

The Issuer, any of its Subsidiaries or the Guarantor may, if permitted under applicable laws or regulations, at any time and from time to time purchase Bonds at any price in the open market or otherwise. The Issuer or the relevant Subsidiary is required to submit to the Registrar for cancellation any Bonds so purchased. Any Bonds purchased by the Guarantor may be held outstanding or submitted for cancellation at the option of the Guarantor.

8.9 Cancellation

All Bonds which are redeemed or purchased by the Issuer or any of its Subsidiaries or exchanged or surrendered will forthwith be cancelled. Any Bonds purchased by the Guarantor may be held outstanding or submitted for cancellation at the option of the Guarantor. If any Bonds purchased by the Guarantor are held outstanding, the Guarantor shall be entitled to all rights of a Bondholder in respect of such Bonds under these Conditions and the Trust Deed, including the Exchange Right. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

8.10 Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will be given in accordance with Condition 17, and specify (i) the Exchange Price as at the date of the relevant notice, (ii) the Closing Price as at the latest practicable date prior to the publication of the notice, (iii) the date for redemption, (iv) the manner in which redemption will be effected, (v) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice and (vi) such other information as the Trustee (in its absolute discretion) may require.

No notice of redemption given under Condition 8.2 or Condition 8.3 shall be effective if it specifies a date for redemption which falls during a Closed Period or within 15 days following the last day of a Closed Period.

If more than one notice of redemption is given (being a notice given by either the Issuer or a Bondholder pursuant to this Condition), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under these Conditions.

9. TAXATION

9.1 All payments in respect of the Bonds by the Issuer or the Guarantor will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Korea or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. If such withholding or deduction is so required, the Issuer or (as the case may be) the Guarantor will pay such additional amount (“Additional Amounts”) as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

9.1.1 to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with Korea otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or

- 9.1.2 (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such Additional Amounts on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or
- 9.1.3 presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent or Exchange Agent in a Member State of the European Union.
- 9.2 For the purposes hereof, “Relevant Date” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.
- 9.3 References in these Conditions to principal shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. EVENTS OF DEFAULT

- 10.1 The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured and/or pre-funded by the Bondholders to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at the U.S. Dollar Equivalent of 100.00% of their aggregate principal amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Exchange Right in respect of their Bonds in accordance with Condition 6) if any of the following events (each an “Event of Default”) has occurred:
- 10.1.1 Non-Payment: (i) the Issuer (failing which, the Guarantor) fails to pay all or any part of any principal in respect of any of the Bonds when the same shall become due and payable, whether at maturity, on acceleration, upon redemption or otherwise; or
- 10.1.2 Exchange Rights: the Issuer fails for more than two business days to deliver the Shares or the Exchange Property, as applicable, as and when such Shares and/or the Exchange Property are required to be delivered following exchange of a Bond; or
- 10.1.3 Breach of Other Obligations: the Issuer defaults in the performance or observance of or compliance with any of its other obligations set out in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 calendar days after the date on which written notice specifying such failure, stating that such notice is a “Notice of Default” under the Bonds and demanding that the Issuer remedy the same, shall have been given to the Issuer by the Trustee; or
- 10.1.4 Cross-Default: (i) any other present or future indebtedness of the Issuer, any Principal Subsidiary or the Guarantor for or in respect of moneys borrowed or raised becomes due and payable as a result of acceleration of such indebtedness prior to its stated maturity (otherwise than at the option of the Issuer, such Principal Subsidiary or the

Guarantor, as the case may be) by reason of any actual or potential default, event of default or the like (howsoever described) or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (iii) the Issuer, any Principal Subsidiary or the Guarantor fails to pay when due (or within any applicable grace period originally provided for) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised; provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which any one or more of the events mentioned above in this Condition 10.1.4 has or have occurred with respect to the Issuer and any Principal Subsidiary or (as the case may be) the Guarantor equals or exceeds the higher of US\$20,000,000 or its equivalent in other currencies (as reasonably determined by the Trustee); or

- 10.1.5 Involuntary Proceedings: (i) proceedings are initiated against the Issuer, any Principal Subsidiary or the Guarantor under any applicable liquidation, insolvency, composition, reorganization, rehabilitation or other similar laws or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, any Principal Subsidiary or the Guarantor or, as the case may be, in relation to the whole or, in the opinion of the Trustee, a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, and (ii) such case (other than the appointment of an administrator) is not stayed or discharged within 60 days; or
- 10.1.6 Voluntary Proceedings: if the Issuer, any Principal Subsidiary or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganization or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- 10.1.7 Winding-up, Dissolution: (i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, any Principal Subsidiary or the Guarantor; or (ii) the Issuer, any Principal Subsidiary or the Guarantor ceases or threatens to cease to carry on the whole or substantially all of its business, save for the purposes of reorganization or terms approved by an Extraordinary Resolution of Bondholders, or the Issuer, any Principal Subsidiary or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay all or, in the opinion of the Trustee, a substantial part of its debts (or any class of its debt) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- 10.1.8 Guarantee Not in Force: the Guarantee of the Bonds is not in full force and effect or is claimed by the Guarantor not to be in full force and effect and such default is not cured by the Issuer or the Guarantor by providing a guarantee on terms and conditions substantially in line with the Guarantee of the Bonds within 30 days after the date on which written notice specifying such failure, stating that such notice is a "Notice of Default" under the Bonds and demanding that the Issuer or the Guarantor remedy the same, shall have been given to the Issuer and the Guarantor by the Trustee; or

10.1.9 Analogous Events: any event occurs which under the laws of the relevant jurisdiction has an analogous effect to any of the events referred to in Condition 10.1.1 to Condition 10.1.8 above.

Upon any such notice being given to the Issuer and the Guarantor, the Bonds will immediately become due and payable at their principal amount as provided in the Trust Deed and the Deed of Guarantee.

For the purposes of Condition 10.1.4 above, any indebtedness which is in a currency other than U.S. dollars shall be translated into U.S. dollars at the middle spot rate for the sale of U.S. dollars against the purchase of the relevant currency quoted by any leading bank selected by the Trustee in its absolute discretion on any day when the Trustee requests a quotation for such purposes.

10.2 If the Bonds have become due and payable pursuant to Condition 10.1, notwithstanding Condition 6.1 and receipt of any payment after the acceleration of the Bonds and provided that no Exchange Notice has been delivered pursuant to Condition 6.1.4, a Bondholder may exercise its Exchange Right in accordance with this Condition 10.2 by delivering an Exchange Notice (unless, with respect to Condition 10.1.2, an Exchange Notice has already been delivered) to an Exchange Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10.1 (at which time the Issuer will notify the Bondholders of the number of Shares per Bond to be delivered upon exchange, assuming all the then outstanding Bonds are exchanged) to and including the thirtieth business day after such payment.

If any exchanging Bondholder delivers an Exchange Notice pursuant to this Condition 10 on the business day prior to, or during, a Closed Period, the Bondholder's Exchange Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Exchange Date (notwithstanding that such a date may fall outside the Exchange Period), for the purposes of such Bondholder's exercise of its Exchange Right pursuant to this Condition 10.

If the Exchange Right attached to any Bond is exercised pursuant to this Condition 10.2 or if an Event of Default has occurred pursuant to Condition 10.1.3, the Issuer shall at the option of the exchanging Bondholder (notice of exercise of such option to be delivered to the Exchange Agent in writing) in lieu of delivery of the relevant Shares pay to such Bondholder the U.S. Dollar Equivalent of an amount (the "Default Cure Amount") equal to the product of (x) (i) the number of Shares that are required to be delivered by the Issuer to satisfy the Exchange Right in relation to such exchanging Bondholder minus (ii) the number of Shares that are actually delivered by the Issuer pursuant to such Bondholders' Exchange Notice and (y) the Closing Price of the Shares on the Exchange Date; provided that if such Bondholder has received any payment under the Bonds pursuant to this Condition 10, the amount of such payment shall be deducted from the Default Cure Amount. Payment of the Default Cure Amount shall be paid to the exchanging Bondholder on the third business day following the date on which notice of exercise of the option to receive the Default Cure Amount is delivered.

11. CONSOLIDATION, AMALGAMATION OR MERGER

The Issuer will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a “Merger”), unless:

(i) the corporation formed by such Merger (if not the Issuer) or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed, all obligations of the Issuer under the Trust Deed, the Agency Agreement and the Bonds and the performance of every covenant and agreement applicable to it contained therein;

(ii) immediately after giving effect to any such Merger, no Event of Default shall have occurred or be continuing or would result therefrom; and

(iii) the corporation formed by such Merger, or the person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such Merger with respect to the payment of principal on the Bonds.

12. PRESCRIPTION

Claims in respect of amount due in respect of the Bonds will become prescribed unless made within 10 years from the relevant date for payment.

13. ENFORCEMENT

At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed and the Deed of Guarantee, but it will not be bound to take any such proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder will be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

14. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

14.1 Meetings

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing in the aggregate over 50% in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal or

default interest payable in respect of the Bonds (including the U.S. Dollar Equivalent of such amount), (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Exchange Rights or the put options specified in Condition 8, (v) to modify the due date for, or amount or currency of, any payment under the Guarantee of the Bonds, (vi) to increase the Exchange Price (other than as provided for in Condition 6.3.21) or to shorten the Exchange Period or (vii) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66.66%, or at any adjourned such meeting not less than 25%, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

14.2 Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 14.1 above) to, or the waiver or authorization of any breach or proposed breach of, the Bonds, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Trust Deed, the Deed of Guarantee or these Conditions which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Trust Deed, the Deed of Guarantee or these Conditions which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any modification, waiver or authorization pursuant to this Condition 14.2 will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter.

14.3 Interests of Bondholders

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorization or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed or the Deed of Guarantee.

14.4 Certificates/Reports

The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept

and shall be entitled to conclusively rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

15. REPLACEMENT OF CERTIFICATES

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

16. FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders (but with the prior written consent of the Guarantor and the Trustee) create and issue further securities having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the Bonds shall be constituted by a deed supplemental to the Trust Deed.

17. NOTICES

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an Alternative Clearing System, notices to Bondholders shall be given by delivery of the relevant notice to Euroclear or Clearstream or an Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions (and shall be deemed to have been given on the date of delivery to such clearing system).

18. AGENTS

The names of the initial Agents and the Registrar and their specified offices are set out below. Subject to the terms of the Trust Deed and the Agency Agreement, the Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) a Principal Agent; (ii) a Registrar outside the United Kingdom; and (iii) so long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption (and such agent in Singapore shall be a Paying, Transfer and Exchange Agent and shall be referred to in these terms and conditions as the "Singapore Agent"). Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any

change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Bondholders in accordance with Condition 17 and to the Guarantor and in any event not less than 45 days' notice will be given.

So long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Singapore Agent.

19. INDEMNIFICATION

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment or the provisions of the Trust Deed or the terms and conditions of the Bonds unless indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor or any person or body corporate associated with the Issuer or the Guarantor without accounting for any profit resulting therefrom.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Bond under the Contracts (Rights of Third Parties) Act 1999.

21. GOVERNING LAW AND JURISDICTION

The Bonds, the Trust Deed, the Deed of Guarantee 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, the laws of England and Wales. The courts of England and Wales are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Deed of Guarantee and the Bonds ("Proceedings") and accordingly any Proceedings arising out of or in connection with the Trust Deed, the Deed of Guarantee and the Bonds may be brought in such courts. The Issuer and the Guarantor have in the Trust Deed and the Deed of Guarantee, respectively, irrevocably submitted to the courts of England and Wales and waived any objection to Proceedings in such courts, whether on the ground of venue or on the ground that Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the Bondholders. The Issuer irrevocably has appointed Law Debenture Corporate Services Limited, now at 5th Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent for service of process in England and the Guarantor irrevocably has appointed Kookmin Bank International Ltd., now at 6th Floor, Princes Court, 7 Princes Street, London EC2R 8AQ, United Kingdom, as its agent for service of process in England. If for any reason Law Debenture Corporate Services Limited or Kookmin Bank International Ltd. ceases to be able to act as such or no longer has an address in England, each of the Issuer and the Guarantor, as applicable, irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein, in the Trust Deed or in the Deed of Guarantee shall affect the right to serve process in any other manner permitted by law.

FORM OF THE BONDS

Capitalized terms used in this section and not otherwise defined have the meanings given to them in "Terms and Conditions of the Bonds."

The Global Certificate

The Global Certificate will be deposited with, and registered in the name of a nominee for The Bank of New York Mellon, London Branch, as common depository (the "Common Depository") for Euroclear and Clearstream. Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by the Global Certificate. Such accounts will be designated initially by or on behalf of the Managers. 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 account holders. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons with beneficial interests in the Global Certificate other than such account holders).

The laws of certain jurisdictions require that certain purchasers of the Bonds take physical delivery of such Bonds in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Certificate may be limited by such laws.

Payments of the principal of, and any premium (if any) on, the Global Certificate will be made to the Common Depository or its nominee as the registered owner thereof. None of the Guarantor, the Issuer, the Trustee, the Common Depository, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent or any other agent of the Issuer will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Certificate or for any notice permitted or required to be given to persons with beneficial interests in the Global Certificate or any consent given or actions taken by such persons. The Issuer expects that upon receipt of any payment in respect of the Global Certificate representing any Bonds held by it or its nominee, the Common Depository will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the amount of the principal of the Global Certificate as shown on its records.

Transfers between account holders in Euroclear and Clearstream will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

Subject to the requirements of Euroclear and Clearstream, the Exchange Right attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation of one or more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Exchange Agent together with the relevant Exchange Notice will not be required. The provisions of Condition 6 of the Bonds (as described in "Terms and Conditions of the Bonds") will otherwise apply.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificate among participants and account holders of Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Guarantor, the Issuer, the Trustee, the Common Depository, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent, any registrar or any other agents of the Issuer will have any

responsibility for the performance by Euroclear or Clearstream, or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Bonds for participating organizations and facilitates the clearance and settlement of Bond transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Individual Definitive Certificates

The Issuer will issue definitive certificates representing individual definitive Bonds (the "Definitive Certificates") in registered form in exchange for the Global Certificate if:

- (i) the Common Depositary or any successor to the Common Depositary notifies the Issuer, the Guarantor, Euroclear and Clearstream in writing that it is at any time unwilling or unable to continue to act as a depositary and a successor depositary is not appointed by Euroclear and Clearstream within 90 days; or
- (ii) either Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Upon receipt of notice from Euroclear, Clearstream or the Registrar, as the case may be, that the above has occurred, the Issuer will make arrangements for the exchange of interests in the Global Certificate for Definitive Certificates representing individual definitive Bonds and cause such Definitive Certificates to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to the holders of the Bonds. Each person exchanging interests in the Global Certificate for one or more of these Definitive Certificates will be required to provide to the Registrar, through the relevant clearing system, written instructions and other information required by the Issuer and the Registrar to complete, execute and deliver the relevant certificates. Any Definitive Certificates delivered in exchange for the Global Certificate or beneficial interests therein will be registered in the names requested, and issued in any denominations approved, by the relevant clearing system.

So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that interests in the Global Certificate are exchanged for Definitive Certificates.

THE GLOBAL CERTIFICATE

The Bonds will be evidenced by a Global Certificate. The Global Certificate contains provisions that apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the "Terms and Conditions" of the Bonds set out in this offering circular. The following is a summary of certain provisions of the Bonds while in global form.

Meetings

The registered holder of the Bonds evidenced by the Global Certificate shall be treated as being two persons for the purposes of any meeting of the Bondholders and, at any such meeting, as having one vote in respect of each ₩200,000,000 in principal amount of the Bonds in respect of which the Global Certificate is issued.

The Trustee may allow a beneficial owner of interests in the Bonds in respect of which the Global Certificate has been issued to attend and speak (but not to vote) at a meeting of the Bondholders on appropriate proof of his identity and interest.

Payments

Payments of principal and default interest (if any) in respect of Bonds evidenced by the Global Certificate shall be made against presentation or, if no further payment is to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Exchange

Subject to the requirements of Euroclear and Clearstream or any Alternative Clearing System, the Exchange Right attaching to Bonds in respect of which the Global Certificate is issued may be exercised by the presentation to, or to the order of, the Principal Agent of one or more Exchange Notices duly completed by, or on behalf of, a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Exchange Agent together with the relevant Exchange Notice(s) shall not be required. The exercise of the Exchange Right shall be notified by the Exchange Agent to the Registrar and the holder of the Global Certificate.

Redemption at the Option of Bondholders

The option of the Bondholders provided for in Conditions 8.4, 8.5 and 8.6 may be exercised by the holder of the Global Certificate (acting upon instructions from the Bondholders) giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in the Conditions.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers appropriate to do so in the circumstances but without being obliged to do so, call for any certificate or other document to be issued by Euroclear or Clearstream (or any Alternative Clearing System on behalf of whom the Global Certificate may be held) as to the principal amount of Bonds evidenced by the Global Certificate standing to the account of any Bondholder. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding insofar as Bondholders are concerned for all

purposes. The Trustee shall not be liable to any Bondholder or any other person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Euroclear or Clearstream (or any such Alternative Clearing System) and subsequently found to be forged or not authentic or not to be correct.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed, the beneficial owners of interests in the Bonds represented by the Global Certificate, as named in a certificate of the holder of such Bonds, shall be recognized as the beneficiaries of the Trust Deed, to the extent of the principal amounts of their respective interests in such Bonds as set out in such certificate of the Bondholder, as if they were themselves the Bondholders in such principal amounts.

Notices

So long as all the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to the Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System for communication by it to entitled accountholders in substitution for notification as required by the Conditions. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear or Clearstream or the Alternative Clearing System, as the case may be, as aforesaid.

Transfers

Transfers of interests in the Bonds represented by the Global Certificate shall be effected through the records of Euroclear and Clearstream or any Alternative Clearing System and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream or any Alternative Clearing System and their respective direct and indirect participants.

USE OF PROCEEDS

We intend to use the net proceeds from the offering of the Bonds for the repayment of our existing indebtedness and 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.

<u>Year Ended December 31,</u>	<u>At End of Period</u>	<u>Average Rate⁽¹⁾</u>	<u>High</u>	<u>Low</u>
		<i>(Won per US\$1.00)</i>		
2011	₩1,153.3	₩1,108.1	₩1,199.5	₩1,049.5
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
November	1,150.4	1,152.0	1,173.4	1,129.5
December	1,172.0	1,172.2	1,186.1	1,156.8
2016 (through May 4)	1,137.1	1,186.2	1,240.9	1,132.3
January	1,208.4	1,201.7	1,212.7	1,172.0
February	1,235.4	1,217.4	1,236.1	1,195.1
March	1,153.5	1,188.2	1,240.9	1,153.5
April	1,143.9	1,147.5	1,156.5	1,132.3
May (through May 4)	1,137.1	1,138.7	1,140.8	1,137.1

Source: Seoul Money Brokerage Services, Ltd.

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

CAPITALIZATION OF THE GUARANTOR

The following table sets forth the Bank's consolidated capitalization (defined as the sum of its borrowings and debentures and its equity) as of December 31, 2015. You should read the information set forth below in conjunction with the Bank's consolidated financial statements and related notes appearing elsewhere in this offering circular.

		As of December 31, 2015⁽¹⁾
		<i>(In billions of Won)</i>
Borrowings and debentures ⁽²⁾	₩	27,634
Equity		
Common stock, par value ₩5,000		
Authorized — 1,000,000,000 shares		
Issued and outstanding common stock — 404,379,116		
shares		2,022
Capital surplus		5,220
Accumulated other comprehensive income		501
Retained earnings		15,005
Total equity	₩	22,747
Total capitalization	₩	50,381

(1) There has been no material change in the capitalization of the Bank since December 31, 2015.

(2) Consist of borrowings of ₩11,685 billion and debentures of ₩15,949 billion.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated Financial Information of the Guarantor

The following tables set forth the selected consolidated financial information of the Bank. The selected consolidated financial information of the Bank as of and for the years ended December 31, 2013, 2014 and 2015 set forth below has been derived from its audited consolidated financial statements and related notes included elsewhere in this offering circular.

The selected financial information set forth below should be read in conjunction with the consolidated financial statements of the Bank and related notes included elsewhere in this offering circular, which have been prepared in accordance with K-IFRS.

Consolidated Statement of Comprehensive Income Information

	For the Year Ended December 31,		
	2013	2014	2015
	<i>(in billions of Won)</i>		
Interest income	₩ 10,595	₩ 9,703	₩ 8,388
Interest expense	(5,435)	(4,731)	(3,677)
Net interest income	5,160	4,971	4,712
Fee and commission income	1,282	1,271	1,372
Fee and commission expense	(177)	(193)	(216)
Net fee and commission income	1,105	1,078	1,156
Net gains on financial assets/liabilities at fair value through profit or loss	691	356	287
Net other operating expenses	(1,055)	(769)	(422)
General and administrative expenses	(3,397)	(3,373)	(3,812)
Operating profit before provision for credit losses	2,503	2,264	1,922
Provision for credit losses	(1,065)	(888)	(742)
Operating profit	1,438	1,377	1,180
Share of profit (loss) of associates	(203)	18	8
Net other non-operating income (expenses)	(24)	(34)	193
Net non-operating profit (loss)	(227)	(16)	201
Profit before income tax expense	1,212	1,360	1,381
Income tax expenses	(381)	(331)	(274)
Profit for the year	₩ 831	₩ 1,029	₩ 1,107
(Adjusted profit after provision of regulatory reserve for credit losses)	730	852	1,140
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	42	(84)	(14)
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments	(2)	17	45
Valuation gains (losses) on financial investments	34	222	(78)
Share of other comprehensive income (loss) of associates	(10)	(33)	3
Loss on hedging instruments of net investments in foreign operations	—	—	(25)
Other comprehensive income (loss) for the year, net of tax	64	123	(70)
Total comprehensive income for the year	₩ 894	₩ 1,152	₩ 1,037
Profit attributable to:			
Shareholders of the parent company	831	1,029	1,107
Non-controlling interests	—	—	—
	₩ 831	₩ 1,029	₩ 1,107
Total comprehensive income attributable to:			
Shareholders of the parent entity	₩ 894	₩ 1,152	₩ 1,037
Non-controlling interests	₩ —	₩ —	₩ —

Consolidated Statement of Financial Position Information

	As of December 31,		
	2013	2014	2015
	<i>(in billions of Won)</i>		
Assets			
Cash and due from financial institutions	₩ 13,730	₩ 13,974	₩ 14,563
Financial assets at fair value through profit or loss	7,070	7,520	6,488
Derivative financial assets	1,719	1,910	2,186
Loans	203,124	211,526	222,738
Financial investments	30,087	29,259	32,912
Investments in associates	742	667	670
Property and equipment	2,903	2,888	2,909
Investment property	201	409	413
Intangible assets	225	207	182
Current income tax assets	329	306	18
Deferred income tax assets	0	5	8
Assets held for sale	21	54	34
Other assets	5,437	6,729	7,157
Total assets	₩265,588	₩275,454	₩290,278
Liabilities			
Financial liabilities at fair value through profit or loss	40	52	69
Derivative financial liabilities	1,766	1,759	2,139
Deposits	200,968	211,611	224,334
Debts	13,570	14,297	14,292
Debentures	16,213	15,250	15,949
Provisions	540	483	450
Net defined benefit liabilities	52	57	56
Current income tax liabilities	1	8	7
Deferred income tax liabilities	120	110	165
Other liabilities	11,372	9,884	10,070
Total liabilities	₩244,642	₩253,513	₩267,531
Equity			
Capital stock	₩ 2,022	₩ 2,022	₩ 2,022
Capital surplus	5,220	5,220	5,220
Accumulated other comprehensive income	448	571	501
Retained earnings	13,258	14,128	15,005
(Provision of regulatory reserve for credit losses)	(1,590)	(1,691)	(1,868)
(Amounts estimated to be appropriated)	(101)	(177)	33
Equity attributable to shareholders of the parent company	20,947	21,940	22,747
Non-controlling interest equity	—	—	—
Total equity	20,947	21,940	22,747
Total liabilities and equity	₩265,588	₩275,454	₩290,278

Selected Operating Information

Unless otherwise stated, the selected ratios set forth below as of and for the years ended 2013, 2014 and 2015 are calculated based on the separate financial statements of the Bank prepared in accordance with K-IFRS, which are not included in this offering circular.

	As of or for the Year Ended December 31,		
	2013	2014	2015
Profit as a percentage of:			
Average total assets ⁽¹⁾	0.30%	0.33%	0.39%
Average equity ⁽¹⁾	4.21	4.51	5.27
Ratio of non-performing credits to total credits ⁽²⁾	1.43	1.03	0.84
Ratio of allowance to total credits ⁽²⁾	1.98	1.74	1.66
Net interest spread ⁽³⁾	1.84	1.74	1.55
Net interest margin ⁽⁴⁾	1.91	1.81	1.61
Total capital adequacy ratio ⁽⁵⁾⁽⁹⁾	15.42	15.97	16.01
Tier I capital adequacy ratio ⁽⁶⁾⁽⁹⁾	12.61	13.38	13.74
Common equity Tier I capital adequacy ratio ⁽⁷⁾⁽⁹⁾	12.61	13.38	13.74
Tier II capital adequacy ratio ⁽⁸⁾⁽⁹⁾	2.81	2.59	2.27

Notes:

- (1) Derived by dividing profit by the daily average balance of total assets or total equity, as applicable, in each case calculated in accordance with applicable FSS reporting guidelines.
- (2) Includes loans, guarantees and other credits in both the banking and trust accounts, calculated in accordance with applicable FSS reporting guidelines.
- (3) Represents the difference between the average annual rate of interest earned on interest earning assets and the average annual rate of interest paid on interest bearing liabilities, calculated in accordance with applicable FSS reporting guidelines.
- (4) Derived by dividing net interest income by average interest earning assets, calculated in accordance with applicable FSS reporting guidelines.
- (5) Calculated as the ratio of the sum of Tier I and Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (6) Calculated as the ratio of Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (7) Calculated as the ratio of common equity Tier I capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (8) Calculated as the ratio of Tier II capital to risk-weighted assets, on a consolidated basis and in accordance with guidelines issued by the FSC.
- (9) Calculated based on the consolidated financial statements of the Bank prepared in accordance with K-IFRS.

Consolidated Financial Information of LOEN

The following tables set forth the selected consolidated financial information of LOEN. The selected consolidated financial information of LOEN as of and for the years ended December 31, 2014 and 2015 set forth below has been derived from its audited consolidated financial statements and related notes included elsewhere in this offering circular.

The selected financial information set forth below should be read in conjunction with the consolidated financial statements of LOEN and related notes included elsewhere in this offering circular, which have been prepared in accordance with K-IFRS.

Consolidated Statement of Comprehensive Income Information

	For the Year Ended December 31,	
	2014	2015
	<i>(in billions of Won, except per share amounts)</i>	
Operating revenue	₩ 323	₩ 358
Operating expenses	(265)	(294)
Operating profit	58	63
Other income	0	1
Other expenses	(3)	(2)
Finance income	4	4
Finance costs	(0)	(0)
Profit before income tax	60	66
Income tax expenses	(14)	(16)
Profit for the year	₩ 46	₩ 50
Earnings per share	₩ 1,801	₩ 1,983

Consolidated Statement of Financial Position Information

	As of December 31,	
	2014	2015
	<i>(in billions of Won)</i>	
Total assets	₩ 304	₩ 363
Current assets	240	271
Cash and cash equivalents	38	83
Other financial assets	124	104
Trade and other receivables	57	58
Non-current assets	64	92
Available-for-sale financial assets	2	16
Property and equipment	13	12
Intangible assets	34	47
Total liabilities	98	117
Current liabilities	96	112
Trade and other payables	62	76
Non-current liabilities	2	5
Total equity	206	246
Capital stock	13	13
Capital surplus	47	48
Retained earnings	133	165

THE GUARANTOR

Recent Developments

The Bank's preliminary results for the three months ended March 31, 2016 have not yet been reviewed by its independent accountants and are therefore preliminary and subject to change. However, the Bank believes that its profit for the three months ended March 31, 2016 decreased compared to its profit for the three months ended March 31, 2015 as a result of, among other things, a refund of corporate taxes paid due to a favorable tax ruling by the Supreme Court of Korea in the three months ended March 31, 2015, which was not repeated in the three months ended March 31, 2016.

Business

Overview

The Bank is one of the largest commercial banks in Korea in terms of total assets (including loans). As of December 31, 2015, the Bank had total assets of ₩290,278 billion, total deposits of ₩224,334 billion and total equity of ₩22,747 billion.

On the asset side, the Bank provides credit and related financial services to individuals and SMEs and, to a lesser extent, to large corporate customers. On the deposit side, the Bank provides a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, the Bank's core consumer and SME operations place a high premium on customer access and convenience. The Bank's extensive branch network in Korea provides the Bank with access to a large, stable and cost-effective funding source, enables the Bank to provide its customers convenient access and gives the Bank the ability to provide the customer attention and service essential to conducting its business, particularly in an increasingly competitive environment. The Bank's branch network is further enhanced by automated banking machines and fixed-line, mobile and Internet banking. As of December 31, 2015, the Bank had a customer base of approximately 30.5 million retail customers, which represented approximately one-half of the Korean population.

The following table shows the principal components of the Bank's lending business as of the dates indicated, on a separate basis:

	As of December 31,					
	2013		2014		2015	
	<i>(in billions of Won, except percentages)</i>					
Retail	₩103,877	50.7%	₩112,042	52.7%	₩115,780	51.6%
Corporate	99,700	48.7	99,558	46.8	107,365	47.8
Foreign	1,161	0.6	1,146	0.5	1,272	0.6
Total loans	₩204,738	100.0	₩212,746	100.0	₩224,417	100.0

The Bank provides a full range of personal lending products and retail banking services to individual customers, including mortgage loans. The Bank is the largest private sector mortgage lender in Korea.

Lending to SMEs is the single largest component of the Bank's non-retail credit portfolio and represents a widely diversified exposure to a broad spectrum of the Korean corporate community, both

by type of lending and type of customer, with one of the categories being collateralized loans to SOHO customers that are among the smallest of the SMEs. The volume of the Bank's loans to SMEs requires a customer-oriented approach that is facilitated by the Bank's large and geographically diverse branch network.

With respect to large corporate customers, the Bank continues to seek to maintain and expand quality relationships by providing them with an increasing range of fee-related services.

The legal name of the Bank is Kookmin Bank. The Bank is registered in Korea and incorporated with limited liability under the laws of Korea and operates pursuant to the Bank Act and the Bank of Korea Act, as well as regulations and supervision of the BOK, the MPC, the FSC and its executive body, the FSS. The Bank's registered office and corporate headquarters are located at 84, Namdaemoon-ro, Jung-gu, Seoul 04534, Korea.

Organizational Structure

In September 2008, the Bank completed a "comprehensive stock transfer" under Article 360-15 of the Korean Commercial Code, whereby KB Financial Group became the holding company of the Bank and eight additional entities that were originally the Bank's subsidiaries. Currently, the Bank is a wholly-owned subsidiary of KB Financial Group and the Bank's operating subsidiaries comprise Kookmin Bank Hong Kong Ltd., Kookmin Bank Int'l Ltd. (London), Kookmin Bank Cambodia PLC and Kookmin Bank (China) Ltd. The following tables provide summary information for the Bank's operating subsidiaries, including their total assets, net income, operating income and shareholder's equity as of and for the year ended December 31, 2015:

	As of December 31, 2015		Year ended December 31, 2015		
	Percentage of ownership	Total assets	Equity	Operating revenue	Profit (Loss) for the year
		<i>(in millions of Won, except percentages)</i>			
Kookmin Bank Hong Kong Ltd.	100.00%	₩684,994	₩155,147	₩14,529	₩5,127
Kookmin Bank Int'l Ltd. (London)	100.00	472,941	84,318	10,756	3,484
Kookmin Bank Cambodia PLC	100.00	88,675	24,824	5,850	2,054
Kookmin Bank (China) Ltd.	100.00	1,663,788	432,325	42,269	(8,465)

Branch Network

As of December 31, 2015, the Bank had 1,138 branches and sub-branches in Korea, which represented one of the largest branch networks among Korean commercial banks. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. The following table presents the geographical distribution of the Bank's branch network in Korea as of December 31, 2015:

Area	Number of branches	Percentage
Seoul	412	36.2%
Six largest cities (excluding Seoul)	267	23.5
Other	459	40.3
Total	1,138	100.0%

In addition, the Bank has continued to implement the specialization of its branch functions. Of its branch network as of December 31, 2015, the Bank had eight branches that primarily handled large corporate banking.

In order to support the Bank's branch network, the Bank has established an extensive network of ATMs, which are located in branches and in unmanned outlets known as "autobanks." As of December 31, 2015, the Bank had 9,079 ATMs.

The Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at branch level, reduce employee costs and improve profitability. The aggregate number of transactions conducted using the Bank's ATMs amounted to approximately 606 million in 2013, 573 million in 2014 and 548 million in 2015.

Retail Banking

Due to the Bank's history and development as a retail bank and the know-how and expertise the Bank has acquired from its activities in that market, retail banking has been and will continue to remain one of the Bank's core businesses. The Bank's retail banking activities consist primarily of lending and deposit-taking.

Lending Activities

The Bank offers various loan products that target different segments of the population, with features tailored to each segment's financial profile and other characteristics. The following table sets forth the balances and the percentage of the Bank's total domestic retail lending represented by the categories of the Bank's domestic retail loans as of the dates indicated, on a separate basis:

	As of December 31,					
	2013		2014		2015	
	<i>(in billions of Won, except percentages)</i>					
Retail:						
Mortgage and home equity loans	₩ 77,606	74.7%	₩ 86,919	77.6%	₩ 87,692	75.8%
Other consumer loans ⁽¹⁾	26,271	25.3	25,124	22.4	28,088	24.2
Total	₩103,877	100.0%	₩112,043	100.0%	₩115,780	100.0%

Note:

(1) Includes overdraft loans.

The Bank's retail loans consist of:

- *Mortgage loans*, which are loans made to customers to finance home purchases, construction, improvements or rentals, and home equity loans, which are loans made to the Bank's customers secured by their homes to ensure loan repayment. The Bank also provides overdraft loans in connection with the Bank's home equity loans.
- *Other consumer loans*, which are loans made to customers for any purpose (other than mortgage and home equity loans). These include overdraft loans, which are loans

extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with the Bank in excess of the amount in such accounts up to a limit established by the Bank.

For secured loans, including mortgage and home equity loans, the Bank's policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the Government where the Bank generally limits its lending to between 40% to 60% of the appraised value of collateral) minus the value of any lien or other security interests that are prior to the Bank's security interest. In calculating the adjusted collateral value for real estate, the Bank uses the appraisal value of the collateral multiplied by a factor, generally between 40% to 80% (40% to 70% in the case of mortgage and home equity loans). This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

A borrower's eligibility for the Bank's mortgage loans depends on the value of the mortgage property, the appropriateness of the use of proceeds and the borrower's creditworthiness. A borrower's eligibility for home equity loans is determined by the borrower's credit and the value of the property, while the borrower's eligibility for other consumer loans is primarily determined by the borrower's credit. If the borrower's credit deteriorates, it may be difficult for the Bank to recover the loan. As a result, the Bank reviews the borrower's creditworthiness, collateral value, credit scoring and third party guarantees when evaluating a borrower. In addition, to reduce the interest rate of a loan or to qualify for a loan, a borrower may provide collateral, deposits or guarantees from third parties.

Mortgage and Home Equity Lending

The housing finance market in Korea is divided into public sector and private sector lending. In the public sector, two government entities, the National Housing Urban Fund and the National Agricultural Cooperative Federation, are responsible for most of the mortgage lending.

Private sector mortgage and home equity lending in Korea has expanded substantially in recent years. The Bank provides customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans, and the Bank offers interest rates on a commercial basis. The maximum term of mortgage loans is 35 years and the majority of the Bank's mortgage loans have long-term maturities, which may be renewed.

Non-amortizing home equity loans have an initial maturity of one year, which may be extended on an annual basis for a maximum of five years. Home equity loans subject to amortization of principal may have a maximum term of up to 35 years. Any customer is eligible for a mortgage or an individual home equity loan regardless of whether it participates in one of the Bank's housing related savings programs and so long as that customer is not barred by regulation from obtaining a loan because of bad credit history. However, customers with whom the Bank frequently transacts business and who provide the Bank with significant revenue receive preferential interest rates on loans.

Contrary to prevailing practice in many other countries, a portion of the Bank's mortgage loans are unsecured (although the use of proceeds from these loans is restricted to the financing of home purchases, and some of these loans are guaranteed by a third party). One reason for this phenomenon is that the Bank, along with other Korean banks, provides advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers.

Pricing. The interest rates on the Bank's retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or

twelve-month periods using the Bank's Market Opportunity Rate system, which reflects the Bank's internal cost of funding, further adjusted to account for the Bank's expenses related to lending). The Bank's interest rates also incorporate a margin based among other things on the type of security, the credit score of the borrower and the estimated loss on the security. The Bank can adjust the price to reflect the borrower's current and/or expected future contribution to it. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay the Bank an early termination fee of approximately 0.7% to 1.4% of the loan amount in addition to the accrued interest.

The interest rates on the Bank's home equity loans are determined on the same basis as the Bank's retail mortgage loans.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities, or guaranteed by a third party. Overdraft loans are also classified as other consumer loans, are primarily unsecured and generally have an initial maturity of one year, which is typically extended automatically on an annual basis and may be extended up to a maximum of five years.

Pricing. The interest rates on the Bank's other consumer loans (including overdraft loans) are determined on the same basis as on the Bank's mortgage and home equity loans, except that, for unsecured loans, the borrower's credit score as determined during the Bank's loan approval process is also taken into account.

Deposit-taking Activities

Due to the Bank's extensive nationwide network of branches, together with the Bank's long history of development and the Bank's resulting know-how and expertise, as of December 31, 2015, the Bank had the largest number of retail customers and retail deposits among Korean commercial banks. The total amount of deposits from the Bank's retail customers amounted to ₩145,828 billion as of December 31, 2015, or 65% of the Bank's total deposits.

The Bank offers many deposit products that target different segments of its retail customer base, with features tailored to each segment's financial profile, characteristics and needs, including:

- *Demand deposits*, which either do not accrue interest or accrue interest at a lower rate than time deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit.
- *Time deposits*, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the KOSPI, or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically ranges from one month to five years, and the term for installment savings deposits ranges from six months to ten years. Most installment savings deposits offer fixed interest rates.
- *Certificates of deposit*, the maturities of which typically range from 30 days to 730 days with a required minimum deposit of ₩10 million. Interest rates on certificates of deposit are

determined based on the length of the deposit and prevailing market rates. The Bank's certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit.

- *Foreign currency deposits* are available to Korean and foreign residents, non-residents and overseas immigrants. The Bank offers foreign currency demand deposits and time deposits as well as checking accounts in 11 currencies. Foreign currency demand deposits, which accrue interest at a variable rate, allow customers to deposit and withdraw funds at any time. Foreign currency time deposits generally require customers to maintain the deposit for a fixed term, during which the deposit accrues interest at a fixed rate. If the funds in a foreign currency time deposit are withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered.

The Bank offers varying interest rates on its deposit products depending upon average funding costs, the rate of return on the Bank's interest earning assets and the interest rates offered by other commercial banks.

The Bank also offers comprehensive savings deposits for housing subscription, which are monthly installment savings deposits that provide the holder with preferential rights to subscribe for both public and private housing under the Housing Act. This law is the basic law setting forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These deposits require monthly installments of ₩20,000 to ₩500,000 and accrue interest at variable rates depending on the term. An eligible account holder with ₩70 million or less in annual income may also claim a tax deduction for up to 40% of its annual installment amounts, subject to a maximum deductible amount, in its income tax return for the year under the Restriction of Special Taxation Act.

In 2002, after significant research and planning, the Bank launched private banking operations at its headquarters. Shortly thereafter, the Bank launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary facilities to service such customers. As of December 31, 2015, the Bank operated 22 private banking centers.

The MPC imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 7%. See "Government Regulation — Regulation and Supervision of the Guarantor — Liquidity."

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation (the "KDIC") guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of ₩50 million per depositor per bank. See "Government Regulation — Regulation and Supervision of the Guarantor — Deposit Insurance System." The Bank paid ₩343 billion in 2015 for such premium.

Corporate Banking

The Bank lends to and takes deposits from SMEs and, to a lesser extent, large corporate customers. The Bank also receives fee revenue from "cash management" services offered to corporate customers, which include "firm banking" services such as inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company. Of the Bank's branch network as of December 31, 2015, eight branches primarily handled large corporate banking.

The following table sets forth the balances and the percentage of the Bank's total domestic corporate lending represented by its domestic SME loans and large corporate loans as of the dates indicated, on a separate basis, estimated based on the Bank's internal classifications of corporate borrowers:

	As of December 31,					
	2013		2014		2015	
	<i>(in billions of Won, except percentages)</i>					
Corporate:						
SME loans	₩69,990	70.2%	₩70,516	70.8%	₩77,005	71.8%
Large corporate loans	29,710	29.8	29,042	29.2	30,360	28.2
Total	<u>₩99,700</u>	<u>100.0%</u>	<u>₩99,558</u>	<u>100.0%</u>	<u>₩107,365</u>	<u>100.0%</u>

On the deposit-taking side, the Bank currently offers its corporate customers several types of corporate deposits. The Bank's corporate deposit products can be divided into two general categories: (1) demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and (2) deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. The Bank also offers installment savings deposits, certificates of deposit and repurchase instruments. The Bank offers varying interest rates on deposit products depending upon the rate of return on the Bank's income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

The total amount of deposits from the Bank's corporate customers amounted to ₩72,783 billion as of December 31, 2015, or 32.4% of the Bank's total deposits.

SME Banking

The Bank's SME banking business has traditionally been and will remain one of the Bank's core businesses because of both the Bank's historical development and its accumulated expertise. The Bank believes that it possesses the necessary elements to succeed in the SME market, including its extensive branch network, its credit rating system for credit approval, its marketing capabilities (which the Bank believes have provided the Bank with significant brand loyalty) and its ability to take advantage of economies of scale.

The Bank uses the term "SMEs" as defined in the Small and Medium Industry Basic Act and related regulations. Under the amended Small and Medium Industry Basic Act, which became effective on February 3, 2015, and related regulations, an enterprise must meet each of the following criteria in order to meet the definition of an SME: (i) total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (ii) the average or annual sales revenue standards as prescribed by the Enforcement Decree of the Small and Medium Industry Basic Act that are applicable to the enterprise's primary business must be met and (iii) the standards of management independence as prescribed by the Enforcement Decree of the Small and Medium Industry Basic Act must be met. However, even if an enterprise that qualified as an SME under the Small and Medium Industry Basic Act prior to the amendment thereof no longer meets the definition due to such amendments, such enterprise will continue to be deemed an SME until March 31, 2018. Further, certified social enterprises (as defined in the Social Enterprise Promotion Act of Korea), as well as cooperatives or federations of cooperatives (as defined in the Framework Act on Cooperatives) that satisfy the requirements prescribed by the Small and Medium Industry Basic Act, may also qualify as SMEs.

Industry-wide delinquency ratios for Won-denominated loans to SMEs decreased from 2013 to 2015. However, the Bank's delinquency ratio for loans to SMEs may increase in the future as a result of, among other things, adverse economic conditions in Korea and globally. See "Risk Factors — Risks Related to the Guarantor — Difficult conditions in the global financial markets could adversely affect the Bank's results of operations and financial condition." In addition, in light of the deteriorating financial condition and liquidity position of SMEs in Korea, the Government has in recent years introduced measures intended to encourage Korean banks to provide financial support to SME borrowers. See "Risk Factors — Risks Related to the Guarantor — The Bank has significant exposure to SMEs, and any financial difficulties experienced by these customers may result in a deterioration of the Bank's asset quality and have an adverse impact on the Bank."

Lending Activities. The Bank's principal loan products for its SME customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2015, the Bank had over 240,000 SME customers on the lending side.

Loans to SMEs may be secured by real estate or deposits or may be unsecured. Working capital loans generally have a maturity of one year, but may be extended for additional terms of up to one year in length for an aggregate term of five years. Facilities loans have a maximum maturity of 15 years.

When evaluating the extension of working capital loans, the Bank reviews the corporate customer's creditworthiness and capability to generate cash. Furthermore, the Bank takes credit guaranty letters from other financial institutions and uses time deposits that the borrower has with the Bank as collateral, and may require additional collateral.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous five years. The Bank revalues any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

The Bank also offers mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorized as SMEs. The Bank offers a variety of such mortgage loans, including loans to purchase property or finance the construction of housing units and loans to contractors used for working capital purposes. Such mortgage loans subject the Bank to the risk that the housing units will not be sold. As a result, the Bank reviews the probability of the sale of the housing unit when evaluating the extension of a loan. The Bank also reviews the borrower's creditworthiness and the adequacy of the intended use of proceeds. Furthermore, the Bank takes a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, the Bank also takes a guarantee from the Housing Finance Credit Guarantee Fund as security.

A substantial number of the Bank's SME customers are SOHOs, which the Bank currently defines to include sole proprietorships and individual business interests. With respect to SOHOs, the Bank applies credit risk evaluation models, which not only uses quantitative analysis related to a customer's accounts, personal credit and financial information and due amounts but also requires the Bank's credit officers to perform a qualitative analysis of each potential SOHO customer. With respect to SOHO loans in excess of ₩1 billion, the Bank's credit risk evaluation model also includes a quantitative analysis of the financial statements of the underlying business. The Bank generally lends to SOHOs on a secured basis, although a small portion of the Bank's SOHO exposures are unsecured.

Pricing. The Bank establishes the price for its corporate loan products based principally on transaction risk, the Bank's cost of funding and market considerations. Transaction risk is measured by such factors as the credit rating assigned to a particular borrower, the size of the borrower and the value and type of collateral. The Bank's loans are priced based on the Market Opportunity Rate system. While the Bank generally utilizes the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, the Bank may adjust the interest rate it charges to compete more effectively with other banks.

Large Corporate Banking

Large corporate customers include all companies that are not SME customers. The Bank's articles of incorporation provide that financial services to large corporate customers must be no more than 40% of the total amount of the Bank's Won-denominated loans. The Bank's business focus with respect to large corporate banking is to selectively increase the proportion of high quality large corporate customers. Specifically, the Bank is carrying out various initiatives to improve the Bank's customer relationship with large corporate customers and has been seeking to expand the Bank's service offerings to this segment.

Lending Activities. The Bank's principal loan products for the Bank's large corporate customers are working capital loans and facilities loans. Working capital loans generally have a maturity of one year, but may be extended for additional terms ranging from three months to one year in length for an aggregate term of five years. Facilities loans have a maximum maturity of 15 years. The Bank also offers mortgage loans to large corporate clients who build or sell single- or multi-family housing units, as described above under "— SME Banking — Lending Activities."

In the Bank's unsecured lending to large corporate customers, a critical consideration in the Bank's policy regarding the extension of such unsecured loans is the borrower's creditworthiness. The Bank assigns each borrower a credit rating based on the judgment of its experts or scores calculated using the appropriate credit rating system, taking into account both financial factors and non-financial factors (such as its perception of a borrower's reliability, management and operational risk and risk relating to the borrower's industry). The credit ratings, along with such factors, are key determinants in the Bank's lending to large corporate customers. Large corporate customers generally have higher credit ratings due to their higher repayment capability compared to other types of borrowers, such as SME borrowers. In addition, large corporate borrowers generally are affected to a lesser extent than SME borrowers by fluctuations in the Korean economy and also maintain more sophisticated financial records.

The Bank monitors the credit status of large corporate borrowers and collects information to adjust its ratings appropriately. The Bank also manages and monitors its large corporate customers through the Large Corporate Business Department. In addition, the Credit Risk Department manages the exposures to each large corporate customer and conducts in-depth analysis of various economic and industry-related risks that are relevant to large corporate customers.

Pricing. The Bank determines pricing of its large corporate loans in the same way as the Bank determines the pricing of its SME loans. See "— SME Banking — Pricing."

Capital Markets Activities and International Banking

Through the Bank's capital markets operations, the Bank invests and trades in debt and equity securities and, to a lesser extent, engages in derivatives and asset securitization transactions and makes call loans. The Bank also provides investment banking services to corporate customers.

Securities Investment and Trading

The Bank invests in and trades securities for the Bank's own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2013, 2014 and 2015, the Bank's investment portfolio, which consists primarily of held-to-maturity financial assets and available-for-sale financial assets, and the Bank's trading portfolio had a combined total carrying amount of ₩37,156 billion, ₩36,779 billion and ₩39,329 billion and represented 14.0%, 13.4% and 13.5% of the Bank's total assets, respectively.

The Bank's trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions.

From time to time the Bank also purchases equity securities for the Bank's securities portfolios. The Bank's equity securities consist primarily of marketable beneficiary certificates and equities listed on the KRX KOSPI Market, the KRX KOSDAQ Market of the Korea Exchange or the KRX KONEX Market of the Korea Exchange.

The Bank's trading portfolio also includes derivative-linked securities, the underlying assets of which were linked to, among other things, interest rates, exchange rates, stock price indices or credit risks.

Derivatives Trading

The Bank provides and trades a range of derivatives products, including:

- Won interest rate swaps, relating to Won interest rate risks;
- cross-currency swaps, forwards and options relating to foreign exchange risks; and
- stock price index options linked to the KOSPI index.

The Bank's derivatives operations focus on addressing the needs of the Bank's corporate clients to hedge their risk exposure and the need to hedge the Bank's risk exposure that results from such client contracts. The Bank also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposure that arise from the Bank's own assets and liabilities. In addition, the Bank engages in proprietary trading of derivatives within the Bank's regulated open position limits.

Asset Securitization Transactions

The Bank is active in the Korean asset-backed securities market. Based on the Bank's diverse experience with respect to product development and management capabilities relating to asset securitization, the Bank offers customers a wide range of financial products to reinforce the Bank's position as a leading bank with respect to the asset securitization market.

Call Loans

The Bank makes call loans and borrows call money in the short-term money market. Call loans are defined as short-term lending among banks and financial institutions either in Won or in foreign currencies with maturities of 90 days or less. Typically, call loans have maturities of one day.

Investment Banking

The Bank has focused on selectively expanding its investment banking activities in order to increase its fee income and diversify its revenue base. The main focus of the Bank's investment banking operations is project finance and financial advisory services. The Bank's principal investment banking services include:

- project finance and financial advisory services for social overhead capital projects such as highway, port, power, water and sewage projects;
- financing and financial advisory services for real estate development projects;
- structured finance; and
- financing for mergers and acquisitions.

International Banking

The Bank engages in various international banking activities, including foreign exchange services and derivatives dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to the Bank's domestic customers and overseas subsidiaries and affiliates of Korean corporations. The Bank also raises foreign currency funds through its international banking operations.

The table below sets forth the Bank's overseas branches and representative offices in operation as of the date of this offering circular:

<u>Branches</u>	<u>Location</u>
Kookmin Bank (China) Ltd., Beijing Branch	China
Kookmin Bank (China) Ltd., Guangzhou Branch	China
Kookmin Bank (China) Ltd., Harbin Branch	China
Kookmin Bank (China) Ltd., Shanghai Branch	China
Kookmin Bank (China) Ltd., Suzhou Branch	China
Kookmin Bank, Osaka Branch	Japan
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States
Kookmin Bank, Ho Chi Minh City Branch	Vietnam
Kookmin Bank Cambodia PLC, Toul Kork Branch	Cambodia
<u>Representative Offices</u>	
Kookmin Bank, Mumbai Representative Office	India
Kookmin Bank, Yangon Representative Office	Myanmar
Kookmin Bank, Hanoi Representative Office	Vietnam

The Bank's overseas branches and subsidiaries principally provide Korean companies and nationals in overseas markets with trade financing, local currency funding and foreign exchange services, in conjunction with the operations of the Bank's headquarters.

In March 2008, the Bank entered into agreements to acquire shares of JSC Bank CenterCredit, a Kazakhstan bank, and acquired an initial equity stake of 29,972,840 common shares (equal to 23.0% of the then outstanding voting shares) for approximately ₩528 billion in August 2008. Pursuant to the terms of such agreements, the Bank acquired an aggregate of 14,163,836 additional common shares of JSC Bank CenterCredit in November and December 2008. In addition, in September 2009, the Bank entered into agreements with International Finance Corporation and certain shareholders of JSC Bank CenterCredit pursuant to which the Bank acquired 3,886,574 additional common shares and 36,561,465 non-voting convertible preferred shares of JSC Bank CenterCredit in January and February 2010. As of December 31, 2015, the Bank held 29.6% of the outstanding common shares of JSC Bank CenterCredit.

In May 2009, the Bank acquired 132,600 common shares of Khmer Union Bank, a Cambodian bank, for approximately ₩10 billion. As a result, the Bank acquired 51% of the voting rights in Khmer Union Bank, which was renamed Kookmin Bank Cambodia PLC. In December 2010, July 2012 and June 2013, the Bank acquired additional 37,602 common shares, 125,592 common shares and 24,206 common shares of Kookmin Bank Cambodia PLC, respectively. As of December 31, 2015, the Bank held 100% of the outstanding common shares of Kookmin Bank Cambodia PLC.

Trustee and Custodian Services Relating to Investment Trusts and Other Functions

The Bank acts as a trustee for financial investment companies with a collective investment license, which invest in investment assets using funds raised by the sale of beneficiary certificates of investment trusts to investors. The Bank also acts as custodian for financial institutions and as fund administrator for financial institutions with respect to various investments, as well as acting as settlement agent in connection with such services. The Bank receives a fee for acting in these capacities and generally performs the following functions:

- holding assets for the benefit of the investment trusts or institutional investors;
- receiving and making payments in respect of such investments;
- acting as settlement agent in respect of such investments on behalf of the investment trust or institutional investors, in the domestic and overseas markets;
- providing reports on assets held in custody;
- providing certain foreign exchange services for overseas investment and foreign investors; and
- providing fund-related administration and accounting services.

Other Businesses

Trust Account Management Services

Money Trust Management Services. The Bank provides trust account management services for both specified money trusts and unspecified money trusts. The Bank receives fees for its trust account management services consisting of basic fees that are based upon a percentage of either the

net asset value of the assets or the principal under management and, for certain types of trust account operations, performance fees that are based upon the performance of the trust account operations. In 2015, the Bank's basic fees ranged from 0.1% to 2.0% of total assets under management depending on the type of trust account. The Bank also charges performance fees with respect to certain types of trust account products. The Bank receives penalty payments when customers terminate their trust accounts prior to the original contract maturity.

The Bank provides trust account management services for various types of money trusts. The money trusts the Bank manages are generally trusts with a fixed maturity. Approximately 5.2% of the Bank's money trusts also provide periodic payments of dividends which are added to the assets held in such trusts and not distributed.

Under Korean law, the assets of the Bank's trust accounts are segregated from the Bank's banking account assets and are not available to satisfy the claims of any of the Bank's potential creditors. The Bank is, however, permitted to deposit surplus funds generated by trust assets into the Bank's banking accounts in certain circumstances as set forth under the Trust Act of Korea.

As of December 31, 2015, the total balance of the Bank's money trusts was ₩34,823 billion (as calculated in accordance with Statement of Korea Accounting Standard No. 5004, Trust Accounts, and the Enforcement Regulations of Financial Investment Services under the FSCMA, which the Bank refers to as an "SKAS basis").

As for unspecified money trust accounts, the Bank has investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers who direct the Bank's investment of trust assets.

The following table shows the balances of the Bank's money trusts by type as of the dates indicated. Under K-IFRS, the Bank consolidates trust accounts for which it guarantees both the repayment of the principal amount and a fixed rate of interest as well as trust accounts for which it guarantees only the repayment of the principal amount.

	As of December 31,		
	2013	2014	2015
	<i>(in billions of Won)</i>		
Principal and interest guaranteed trusts ⁽¹⁾	₩ 0.2	₩ 0.2	₩ 0.2
Principal guaranteed trusts ⁽¹⁾	3,070	3,187	3,324
Performance trusts ⁽¹⁾⁽²⁾	20,842	25,854	31,499
Total	<u>₩23,912</u>	<u>₩29,041</u>	<u>₩34,823</u>

Notes:

(1) Calculated on an SKAS basis.

(2) Trusts which are primarily non-guaranteed.

As of December 31, 2015, the trust assets the Bank managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2015, on an SKAS basis, the Bank's trust accounts had invested in securities in the aggregate amount of ₩20,590 billion, of which ₩17,672 billion was debt securities and derivative-linked securities. Securities investments consist of Government-related debt securities, corporate debt securities, including bonds and

commercial paper, equity securities, derivative-linked securities and other securities. Loans made by the Bank's trust account operations are similar in type to the loans made by the Bank's bank account operations. As of December 31, 2015, on an SKAS basis, the Bank's trust accounts had made loans in the principal amount of ₩144 billion (excluding loans from the trust accounts to the Bank's banking accounts of ₩970 billion), which accounted for 0.4% of the Bank's money trust assets. Loans by the Bank's money trusts are subject to the same credit approval process as loans from the Bank's banking accounts. As of December 31, 2015, substantially all of the loans from the Bank's money trust accounts were collateralized or guaranteed.

The Bank's money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by financial investment companies with a collective investment license. On an SKAS basis, as of December 31, 2015, equity securities in the Bank's money trust accounts amounted to ₩2,918 billion, which accounted for 8.4% of the Bank's total money trust assets. Of this amount, ₩2,872 billion was from specified money trusts and ₩46 billion was from unspecified money trusts.

The Bank continues to offer pension-type money trusts that provide a guarantee of the principal amount of the investment. On an SKAS basis, as of December 31, 2015, the balance of the money trusts for which the Bank guaranteed the principal was ₩3,311 billion.

If the income from a money trust for which the Bank provides a guarantee is less than the amount of the payments the Bank has guaranteed, the Bank will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from the Bank's general banking operations. In 2013, 2014 and 2015 the Bank made no such payments from the Bank's banking accounts to cover shortfalls in the Bank's guaranteed trusts.

Property Trust Management Services. The Bank also offers property trust management services, where the Bank manages non-cash assets in return for a fee. Non-cash assets include mostly securities, but can also include other liquid receivables and real estate. Under these arrangements, the Bank renders custodial services for the property in question and collects fee income in return.

In 2015, the Bank's property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust accounts. On an SKAS basis, as of December 31, 2015, the aggregate balance of the Bank's property trusts increased to ₩2,344 billion, compared to ₩1,879 billion as of December 31, 2014.

Management of the National Housing Urban Fund

The National Housing Urban Fund is a Government fund that provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing Urban Fund include providing and managing National Housing Urban Fund loans, issuing National Housing Urban Fund bonds and collecting subscription savings deposits.

In February 2013, the Ministry of Land, Infrastructure and Transport (formerly the Ministry of Land, Transport and Maritime Affairs) designated the Bank as one of the managers of the National Housing Urban Fund. During the five years preceding such designation, the Bank chose not to participate in the bidding process to become a designated manager of the National Housing Urban Fund and only managed pre-existing Fund accounts. In return for managing such pre-existing Fund accounts, the Bank received quarterly fund management fees, calculated based on activity levels for the relevant quarter.

The financial accounting for the National Housing Urban Fund is entirely separate from the Bank's financial accounting, and the non-performing loans and loan losses of the National Housing Urban Fund, in general, do not impact the Bank's financial condition. Regulations and guidelines for managing the National Housing Urban Fund are issued by the Minister of Land, Infrastructure and Transport pursuant to the Housing Act.

Bancassurance

The Government's liberalization of the bancassurance market in Korea has allowed the Bank to offer insurance products of other institutions since September 2003. The Bank currently markets a wide range of bancassurance products and hopes to develop additional fee-based revenues by expanding its offering of these products. As of December 31, 2015, the Bank's bancassurance business had alliances with 17 life insurance companies (including its affiliate, KB Life Insurance) and nine non-life insurance companies (including its affiliate, KB Insurance) and offered 70 different products through the Bank's branch network.

Other Distribution Channels

The following table sets forth information, for the periods indicated, on the number of users and transactions of the other distribution channels for the Bank's retail and corporate banking customers, which are discussed below:

	For the Year Ended December 31,		
	2013	2014	2015
Internet banking:			
Number of users ⁽¹⁾	15,634,113	16,767,588	17,930,962
Number of transactions (thousands) ⁽²⁾	5,024,132	4,569,185	4,755,832
Phone banking:			
Number of users ⁽³⁾	4,870,204	4,914,616	4,955,278
Number of transactions (thousands) ⁽²⁾	183,434	165,130	152,404
Smartphone banking:			
Number of users ⁽⁴⁾	8,002,176	9,484,234	10,862,526
Number of transactions (thousands) ⁽²⁾	6,554,649	7,504,638	8,116,853

Notes:

- (1) Number of users is defined as the total cumulative number of retail and corporate customers who have registered through branch offices to use Internet banking services.
- (2) Number of transactions includes balance and transaction enquiries, fund transfers and other transactions.
- (3) Number of users is defined as the total cumulative number of retail and corporate customers who have registered through branch offices to use phone banking services.
- (4) Number of users is defined as the total cumulative number of retail customers who have registered through branch offices, or the customers' smartphones, to use smartphone banking services.

Internet Banking

The Bank's goal is to consolidate the Bank's position as a market leader in online banking. The Bank's Internet banking services currently include:

- basic banking services, including fund transfers, balance and transaction enquiries, pre-set automatic transfers, product enquiries, online bill payments and foreign exchange services;

- investment services, including opening deposit accounts and investing in funds;
- processing of loan applications;
- electronic certification services, which permit the Bank's Internet banking service users to authenticate transactions on a confidential basis through digital signatures; and
- wealth management and advisory services, including financial planning and real estate information services.

Phone Banking

The Bank offers a variety of phone banking services, including inter-account fund transfers, balance and transaction enquiries, customer service enquiries and bill payments. The Bank also has call centers, which the Bank primarily uses to:

- advise clients with respect to deposits and loans and to provide the Bank's customers a way to report any emergencies with respect to their accounts;
- allow the Bank's customers to conduct transactions with respect to their accounts, such as balance and transfer enquiries, transfers or payments and opening accounts; and
- conduct telemarketing to the Bank's customers or potential customers to advertise products or services.

Smartphone Banking

"KB Star Banking," the Bank's mobile banking application for smartphones, allows its customers the flexibility to conduct a variety of financial transactions, including balance and transaction enquiries, fund transfers and asset management, anywhere at any time. The Bank's smartphone banking services currently include:

- basic banking services, including fund transfers, balance and transaction enquiries, bill payments and foreign exchange services;
- investment services, including investing in savings deposits that are designed specifically for and offered to smartphone banking customers; and
- processing of loan applications and bancassurance services.

Other Channels

The Bank provides cash management services, which include automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information.

Competition

The Bank competes principally with other nationwide commercial banks in Korea, as well as regional banks, development banks, specialized banks and branches of foreign banks operating in Korea and installment finance corporations for mortgage loan products. The Bank also competes for customer funds with other types of financial service institutions, including savings institutions (such as

mutual savings and finance companies and credit unions and credit cooperatives), investment institutions (such as merchant banking corporations), life insurance companies and financial investment companies. Competition in the domestic banking industry is generally based on the types and quality of the products and services offered, including the size and location of retail networks, the level of automation and interest rates charged and paid.

Competition has increased significantly in the Bank's traditional core businesses, retail banking and SME banking, contributing to some extent to the asset quality deterioration in retail and SME loans. As a result, the Bank's margins on lending activities may decrease in the future.

Furthermore, general regulatory reforms in the Korean financial industry have increased competition among banks and financial institutions in Korea. As the reform of the financial sector continues, foreign financial institutions, some with greater resources than the Bank, have entered, and may continue to enter, the Korean market either by themselves or in partnership with existing Korean financial institutions and compete with the Bank in providing financial and related services.

In addition, the Korean commercial banking sector is undergoing significant consolidation. The number of nationwide commercial banks in Korea has decreased from 16 as of December 31, 1997, to six banks and four financial holding companies as of December 31, 2015. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in February 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in September 2015. Moreover, as part of the Government's plans to privatize Woori Finance Holdings (the financial holding company of Woori Bank), certain subsidiaries of Woori Finance Holdings were sold to other financial institutions and Woori Finance Holdings Co., Ltd. itself was merged into Woori Bank in 2014. The Bank expects that consolidation in the financial industry will continue. The financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for the Bank. The Bank and its parent, KB Financial Group, intend to review potential acquisition opportunities as they arise. The Bank cannot guarantee that it will not be involved in any future mergers or acquisitions.

For additional information, see "Risk Factors — Risks Related to the Guarantor — Competition in the Korean banking industry is intense, and the Bank may lose market share and experience declining margins as a result."

Information Technology

The Bank regularly implements various IT system-related initiatives and upgrades. The Bank believes that continuous improvement of its IT systems is crucial in supporting its operations and management and providing high-quality customer service. Accordingly, the Bank continues to upgrade and improve its systems through various activities, including projects to develop next-generation banking systems, further strengthen system security and timely develop and implement various new IT systems and services that support its business operations and risk management activities.

The Bank's mainframe-based banking IT systems are designed to ensure continuity of services even where there is a failure of the host data center due to a natural disaster or other accidents by utilizing backup systems in disaster recovery data centers. In addition, through the implementation of Parallel Sysplex, a "multi-CPU system," the Bank's banking systems are designed and operated to be able to process transactions without material interruption in the event of CPU failure. In 2010, the Bank launched a next-generation banking IT system that is designed to ensure greater reliability in financial transactions and allow more efficient development of new financial products. The Bank also launched a new disaster recovery system to ensure continuity of operations.

In addition, the Bank implemented new technologies, including Multi-Channel Integration and Enterprise Application Integration systems, to standardize its IT system and better manage IT system operational risk.

In 2011, the Bank launched a mobile weblink to provide online banking services for smartphone users. In addition, the Bank implemented virtual storage technology for its server systems to achieve a more flexible and cost-effective information storage capability.

The integrity and the ability of the Bank's IT systems to withstand potential catastrophic events (such as natural calamities and internal system failures), are crucial to the Bank's continuing operations. The Bank currently tests its disaster recovery systems on a quarterly basis.

Property, Plant and Equipment

The Bank's registered office and corporate headquarters are located at 84, Namdaemoon-ro, Jung-gu, Seoul 04534, Korea. The following table presents information regarding certain of the Bank's properties in Korea:

Type of facility/building	Location	Area (square meters)
Registered office and corporate headquarters	84, Namdaemoon-ro, Jung-gu, Seoul 04534	1,749
Headquarters building	26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331	5,354
Training institute	Ilsan	207,659
Training institute	Daecheon	4,158
Training institute	Sokcho	15,584
Training institute	Cheonan	196,649
IT Centre	Gangseo-gu, Seoul	13,116
IT Centre	Yeouido, Seoul	5,928
IT Centre	Yeouido, Seoul	2,006
Support Centre	Seongbuk-gu, Seoul	4,748

As of December 31, 2015, the Bank had a countrywide network of 1,138 branches and sub-branches.

Approximately one-quarter of these facilities are housed in buildings owned by the Bank, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. There are additional properties owned or leased by the Bank's subsidiaries in Hong Kong, Cambodia, China and the United Kingdom, and branches in Tokyo and Osaka in Japan, Auckland in New Zealand, New York in the United States and Ho Chi Minh City in Vietnam, as well as a branch of Kookmin Bank Cambodia PLC in Phnom Penh and branches of Kookmin Bank (China) Ltd. in Beijing, Guangzhou, Harbin, Shanghai and Suzhou in China. The Bank also has representative offices in Mumbai in India, Yangon in Myanmar and Hanoi in Vietnam. The Bank does not own any material properties outside of Korea.

Employees

The following table sets forth information, for the periods indicated, regarding the Bank's employees:

	As of December 31,		
	2013	2014	2015
Full-time employees ⁽¹⁾	16,617	20,758	19,855
Contractual employees	5,136	903	1,044
Managerial employees	11,539	11,561	11,034
Members of Korea Financial Industry Union	17,123	16,977	16,548

Note:

(1) Excluding executive officers.

The Bank considers its relations with its employees to be satisfactory. Every year, the Bank's labor union and the Bank's management negotiate and enter into a new collective bargaining agreement and negotiate annual wage adjustments.

The Bank's compensation packages consist of base salary and base bonuses. The Bank also provides performance-based compensation to employees and management. Executive officers, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, are compensated depending on their individual annual performance evaluation. The Bank has also implemented a profit-sharing system in order to enhance the performance of its employees. Under this system, the Bank pays bonuses to its employees, in addition to the base salary and depending on the Bank's annual performance.

The Bank provides a wide range of benefits to its employees, including its executive directors. These benefits include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance and reimbursement for medical expenses.

In accordance with the National Pension Act, the Bank contributes an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, into each employee's personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, the Bank has adopted a retirement pension plan for its employees. Contributions under the retirement pension plan are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement. The Bank's retirement pension plans are provided in the form of a defined benefit plan and 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. The defined contribution plan, in which the employer's contribution is determined in advance based on one-twelfth of an employee's total annual pay, is managed directly by the employees. Under Korean law, the Bank may not terminate the employment of full-time employees except under certain limited circumstances.

In June 2009, KB Financial Group established an employee stock ownership plan. All of the Bank's employees are eligible to participate in this plan. Members of KB Financial Group's employee stock ownership association have pre-emptive rights to acquire up to 20% of the shares issued in public offerings by KB Financial Group pursuant to the FSCMA.

Employees of the Bank have been eligible to participate in its employee stock ownership plan, which will be terminated once all of KB Financial Group's common stock held by the plan (which the plan received following the transfer of the Bank's shares held by it as a result of the comprehensive stock transfer pursuant to which KB Financial Group was established) has been distributed to the relevant employees of the Bank at the request of such employees following the expiration of the required holding periods. As of December 31, 2015, the Bank's employee stock ownership association held 724,146 shares of KB Financial Group common stock.

Legal Proceedings

Excluding the legal proceedings discussed below, the Bank is not a party to any legal or administrative proceedings and no proceedings are known by the Bank to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on the Bank's financial condition or results of operations.

In January 2008, the Korea Fair Trade Commission (the "KFTC") instituted certain amendments to standard loan policy conditions for mortgage loan agreements to require banks to be responsible for the payment of mortgage registration expenses when issuing mortgage loans. Subsequently, the Korea Federation of Banks and 16 banks, including the Bank, filed a lawsuit against the KFTC to prevent the implementation of such amendments. In August 2010, the Supreme Court ruled in favor of the KFTC. Since such ruling in August 2010, certain of the Bank's customers have filed 133 lawsuits against the Bank as of March 7, 2016, alleging that it should return the mortgage registration expenses paid by such customers under mortgage loan agreements that did not reflect the amendments instituted by the KFTC in January 2008. As of March 7, 2016, 132 such lawsuits had been concluded and one lawsuit was appealed and pending in the appellate court. The aggregate amount of claimed damages in the one remaining lawsuit, as of March 7, 2016, was approximately ₩0.4 billion. Additional lawsuits may be filed against the Bank with respect to its mortgage loans, and the final outcome of such litigation remains uncertain.

In July 2010, Fairfield Sentry Limited ("Fairfield"), which is currently in liquidation and whose assets were directly or indirectly invested with Bernard L. Madoff Investment Securities LLC ("BLMIS"), filed a lawsuit in the Supreme Court of the State of New York against the Bank, which acted as a trustee bank for its clients who invested in Fairfield. Fairfield seeks restitution of approximately US\$42 million paid to the Bank in connection with share redemptions on the ground that such payments were made by mistake, based on inflated values resulting from BLMIS' fraud. The case is currently pending at such court. Fairfield has filed similar actions against numerous other fund investors to seek recovery of redemption payments.

In May 2012, the trustee appointed for the liquidation of BLMIS filed a lawsuit against the Bank in the United States Bankruptcy Court for the Southern District of New York. The trustee seeks recovery of approximately US\$42 million, which amount is alleged to be equal to the amount of funds that were redeemed from Fairfield between June 2004 and January 2006 by the Bank. The trustee alleges that Fairfield was a "feeder fund" that invested in BLMIS and redemptions from such BLMIS feeder fund are avoidable and recoverable under the U.S. Bankruptcy Code and New York law. The case is currently pending at such court. The trustee has filed similar clawback actions against numerous other institutions.

In June 2012, Korea Lottery Services Co., Ltd., a lottery system operator in connection with the Bank's former lottery operations, filed a lawsuit against the Bank in the Seoul Central District Court seeking ₩1 billion in damages it allegedly suffered because the Bank entered into a seven-year service contract with Korea Lottery Services when the Bank had a five-year lottery operations contract with the Government. The Bank terminated the service contract with Korea Lottery Services upon the

expiration of its lottery operations contract with the Government, which did not reappoint the Bank as a lottery operator. In March 2015, Korea Lottery Services increased the amount of damages claimed to ₩108 billion. The Seoul Central District Court dismissed the case in June 2015 and Korea Lottery Services appealed the case to the Seoul High Court, which dismissed the case in February 2016. Korea Lottery Services appealed the case to the Supreme Court of Korea in March 2016, where it is currently pending.

In July 2012, the KFTC commenced an investigation into alleged collusion among domestic financial institutions, including banks and securities companies, in setting interest rates applicable to three-month certificates of deposit. Such rates were used as a benchmark for banks' lending rates until a new benchmark rate for bank lending was introduced in December 2012. In February 2016, the KFTC sent its formal written report of findings to six commercial banks, including the Bank, and the respondents submitted their response briefs in April 2016. It has been reported that the KFTC plans to hold a hearing as early as May 2016 and announce a final decision regarding its investigation thereafter. An adverse decision by the KFTC could subject the Bank to additional claims and actions, including by its lending customers. While the Bank plans to defend vigorously against the allegations and may seek a review by the Korean courts of any adverse decision by the KFTC, the ultimate outcome of such investigation and any subsequent court review remains uncertain and the Bank cannot evaluate the probability of a favorable or unfavorable outcome or estimate the potential loss to the Bank in the event of an unfavorable outcome.

In November 2012, the Bank filed a lawsuit against the Export-Import Bank of Korea and other creditor financial institutions comprising the creditors' committee of a Korean shipbuilding company which is a borrower of the Bank and is currently in workout. The Bank voted against extending new credit to such borrower and exercised its appraisal rights. The Bank is seeking ₩103 billion as compensation for damages and payment of the purchase price of debt held by the Bank. In November 2012, the Export-Import Bank of Korea and other creditor financial institutions of the borrower filed a counter lawsuit against the Bank seeking ₩46 billion in damages in connection with the borrower's debt restructuring plan. In August 2014, the Seoul Central District Court ruled partially in favor of the Bank in its lawsuit against the Export-Import Bank of Korea and other creditor financial institutions of the borrower, but ruled against the Bank in the counter lawsuit brought against the Bank. Both cases were appealed to the Seoul High Court, which dismissed the appeals in February 2016. Both cases have been appealed to the Supreme Court of Korea in February 2016, where they are currently pending.

Assets and Liabilities

The tables below set out selected financial highlights regarding the Bank's assets and liabilities, on a separate basis, except as otherwise indicated.

Loan Portfolio

Loan Types

The following table presents, on a separate basis, loans by type as of the dates indicated. Except where specified otherwise, all loan amounts stated below are before deduction of allowances for loan losses. Total loans reflect the Bank's loan portfolio, including past due amounts, on a separate basis.

	As of December 31,		
	2013	2014	2015
	<i>(in billions of Won)</i>		
Domestic:			
Corporate			
SME	₩ 69,990	₩ 70,516	₩ 77,005
Large corporate	29,710	29,042	30,360
Retail			
Mortgage and home equity	77,606	86,919	87,692
Other consumer	26,271	25,124	28,088
Total domestic	203,577	211,600	223,145
Foreign	1,161	1,146	1,272
Total gross loans	₩204,738	₩212,746	₩224,417

20 Largest Exposures

As of December 31, 2015, on a consolidated basis, the Bank's 20 largest exposures totaled ₩9,333 billion and accounted for 4% of its total loans and guarantees. As of that date, the Bank's single largest corporate credit exposure was to DSME, to which the Bank had outstanding loans and guarantees (most of which was in the form of guarantees) of ₩1,097 billion.

Maturity Analysis

The Bank typically rolls over its working capital loans and unsecured consumer loans (other than those payable in installments) after it conducts its normal loan review in accordance with its loan review procedures. Working capital loans may generally be extended on an annual basis for an aggregate term of five years and unsecured consumer loans may generally be extended for another term of up to 12 months for an aggregate term of ten years.

The following table sets out, on a separate basis, the scheduled maturities (time remaining until maturity) of the Bank's loan portfolio as of December 31, 2015. The amounts disclosed are before deduction of allowances for loan losses:

	<u>1 Year or Less</u>	<u>Over 1 Year but not More than 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
	<i>(in billions of Won)</i>			
Domestic:				
Corporate				
SMEs	₩ 53,602	₩18,281	₩ 5,123	₩ 77,005
Large corporate	21,247	5,852	3,260	30,360
Total corporate	<u>74,849</u>	<u>24,133</u>	<u>8,383</u>	<u>107,365</u>
Retail				
Mortgage and home equity	7,303	6,477	73,912	87,692
Other consumer	19,608	5,156	3,324	28,088
Total retail	<u>26,910</u>	<u>11,633</u>	<u>77,236</u>	<u>115,780</u>
Total domestic	<u>101,760</u>	<u>35,766</u>	<u>85,619</u>	<u>223,145</u>
Foreign	<u>1,102</u>	<u>126</u>	<u>44</u>	<u>1,272</u>
Total gross loans	<u>₩102,862</u>	<u>₩35,892</u>	<u>₩85,663</u>	<u>₩224,417</u>

Interest Rate Sensitivity

The following table shows, on a separate basis, the total amount of loans due after one year which have fixed interest rates and variable or adjustable interest rates as of December 31, 2015:

	As of December 31, 2015
	<i>(in billions of Won)</i>
Fixed rate ⁽¹⁾	₩ 9,245
Variable or adjustable rates ⁽²⁾	112,310
Total gross loans	<u>₩121,555</u>

Notes:

- (1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.
- (2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which the Bank, together with the borrower and other creditors, seeks to restore the borrower's financial stability and viability. Previously, workouts were regulated under a series of Corporate Restructuring Promotion Acts, which last expired on December 31, 2015. In March 2016, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, which is scheduled to expire on June 30, 2018. Under the new Corporate Restructuring Promotion Act, creditors of a financially troubled borrower may participate in a creditors'

committee, which is authorized to prohibit such creditors from exercising their rights against the borrower, commence workout procedures and approve or make revisions to a reorganization plan prepared by the lead creditor bank, the borrower and external experts. The composition of the creditors' committee is determined at the initial meeting of the committee by the approval of creditors holding not less than 75% of the borrower's total outstanding debt held by creditors who were notified of the initial meeting of the committee. Although creditors that are not financial institutions or hold less than 1% of the total outstanding debt of the borrower need not be notified of the initial meeting of the creditors' committee, if such creditors wish to participate, they may not be excluded. Any decision of the creditors' committee requires the approval of creditors holding not less than 75% of the total outstanding debt of the borrower. However, if a single creditor holds 75% or more of the borrower's total outstanding debt held by the creditors comprising the creditors' committee, any decision of the creditors' committee requires the approval of not less than 40% of the total number of creditors (including such single creditor) comprising the committee. An additional approval of creditors holding not less than 75% of the secured debt is required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee is binding on all creditors of the borrower, with the exception of those creditors that were excluded by a resolution of the committee at its initial meeting and those who exercised their right to request that their claims be purchased. Creditors that voted against commencement of workout, approval or revision of the reorganization plan, debt restructuring, granting of new credit, extension of the joint management process or other resolutions of the committee have the right to request the creditors that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditors that oppose a decision made by the coordination committee may request a court to change such decision.

Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, the Bank takes the status of the borrower into account in valuing the Bank's loans to and collateral from that borrower for purposes of establishing the Bank's allowances for credit losses.

Korean law also provides for corporate rehabilitation proceedings, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. Such restructuring plan is subject to court approval.

As of December 31, 2015, on a consolidated basis, the Bank's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩686 billion or 0.3% of the Bank's total loans and guarantees, most of which were classified as impaired.

Provisioning Policy

The Bank establishes allowances for loan losses with respect to loans to absorb such losses. The Bank assesses individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if the Bank determines that no objective evidence of impairment exists for a loan, it includes such loan in a group of loans with similar credit risk characteristics and assesses them collectively for impairment regardless of whether such loan is significant. For individually significant loans, allowances for loan losses are recorded if objective evidence of impairment exists as a result of one or more events that occurred after initial recognition. For collectively assessed loans, the Bank bases the level of allowances for loan losses on its evaluation of the risk characteristics of such loans, taking into account such factors as historical loss experience, the financial condition of the borrowers and current economic conditions. If additions or changes to the allowances for loan losses

are required, then the Bank records a provision for loan losses, which is included in impairment losses on credit loss and treated as a charge against current income. Credit exposures that the Bank deems to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowances for loan losses.

The Bank generally considers the following loans to be impaired loans:

- loans that are past due by 90 days or more;
- loans that are subject to legal proceedings related to collection;
- loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;
- loans to corporate borrowers that are rated C or D according to the Bank's internal credit ratings for large companies or SMEs;
- loans for which account-specific provisions have been made resulting from a significant perceived decline in credit quality; and
- loans with respect to which the amount of principal and interest payable has been materially decreased due to restructuring.

The actual amount of incurred loan losses may vary from loss estimates due to changing economic conditions or changes in industry or geographic concentrations. The Bank has procedures in place to monitor differences between estimated and actual incurred loan losses, which include detailed periodic assessments by senior management of both individual loans and loan portfolios and the use of models to estimate incurred loan losses in those portfolios.

The Bank regularly evaluates the adequacy of the overall allowances for loan losses and the Bank believes that the allowances for loan losses reflect its best estimate of probable loan losses as of each balance sheet date.

Non-performing Loans

Non-performing loans are defined as loans that are past due by 90 days or more. These loans are generally classified as substandard or below. For further information on the classification of non-performing loans under Korean regulatory requirements, see "— Regulatory Reserve for Credit Losses" below.

The following table shows, on a separate basis, certain details of the Bank's total non-performing loan portfolio as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	<i>(in billions of Won, except percentages)</i>		
Total non-performing loans	₩ 1,109	₩ 719	₩ 623
As a percentage of total loans	0.5%	0.3%	0.3%

The Bank has also issued securities backed by non-performing loans and collateralized bond obligations. Some of these transactions involve transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on the Bank's balance sheet with the securitization proceeds treated as secured borrowings.

Allocation and Analysis of Allowances for Loan Losses

The following table presents, on a separate basis, the allocation of the Bank's allowances for loan losses by loan type as of the dates indicated. The ratio represents, on a separate basis, the percentage of allowances for loan losses in each category to total allowances for loan losses.

	As of December 31,					
	2013		2014		2015	
	Amount	%	Amount	%	Amount	%
	<i>(in billions of Won, except percentages)</i>					
Domestic:						
Corporate						
SME	₩ 994	41.9%	₩ 790	41.3%	₩ 737	36.7%
Large corporate	760	32.0	610	31.9	814	40.5
Total corporate	<u>1,754</u>	<u>73.9</u>	<u>1,400</u>	<u>73.3</u>	<u>1,551</u>	<u>77.3</u>
Retail						
Mortgage and home equity	92	3.9	47	2.5	35	1.7
Other consumer	479	20.2	430	22.2	397	19.8
Total retail	<u>571</u>	<u>24.1</u>	<u>476</u>	<u>24.9</u>	<u>432</u>	<u>21.5</u>
Total domestic	<u>2,325</u>	<u>98.0</u>	<u>1,877</u>	<u>98.2</u>	<u>1,983</u>	<u>98.8</u>
Foreign⁽¹⁾	<u>47</u>	<u>2.0</u>	<u>34</u>	<u>1.8</u>	<u>24</u>	<u>1.2</u>
Total allowances for loan losses	<u>₩ 2,373</u>	<u>100.0%</u>	<u>₩ 1,911</u>	<u>100.0%</u>	<u>₩ 2,007</u>	<u>100.0%</u>

Note:

(1) Consists primarily of loans to corporations.

The following table analyses, on a separate basis, the Bank's allowances for loan losses and loan loss experience for each of the periods indicated:

	As of December 31,		
	2013	2014	2015
	<i>(in billions of Won, except percentages)</i>		
Balance at the beginning of the period	₩ 2,864	₩ 2,373	₩ 1,911
Amounts charged against income	1,057	877	794
Sale	(83)	(68)	(50)
Gross charge-offs:			
Domestic:			
Corporate			
SME	641	725	408
Large corporate	454	328	275
Retail			
Mortgage and home equity	134	149	15
Other consumer	447	371	281
Foreign:	2	17	0
Total gross charge-offs	<u>(1,678)</u>	<u>(1,590)</u>	<u>(979)</u>
Recoveries:			
Domestic:			
Corporate			
SME	146	263	153
Large corporate	0	0	0
Retail			
Mortgage and home equity	22	32	63
Other consumer	103	98	114
Foreign:	2	1	4
Total recoveries	<u>273</u>	<u>394</u>	<u>333</u>
Net charge-offs	<u>(1,405)</u>	<u>(1,196)</u>	<u>(646)</u>
Other charges	(59)	(75)	(2)
Balance, at the end of the period	<u>₩ 2,373</u>	<u>₩ 1,911</u>	<u>₩ 2,007</u>
Ratio of net charge-offs during the period to average loans outstanding during the period	0.7%	0.6%	0.3%

Regulatory Reserve for Credit Losses

If the Bank's allowances for credit losses are deemed insufficient for regulatory purposes, the Bank is required to compensate for the difference by recording a regulatory reserve for credit losses, which is segregated within the Bank's retained earnings. Regulatory reserve for credit losses are not available for distribution to shareholders as dividends. The level of regulatory reserve for credit losses required to be recorded is equal to the amount by which the Bank's allowances for credit losses are less than the greater of (x) the amount of expected loss calculated using the internal ratings-based

approach under Basel III and as approved by the FSS and (y) the required amount of credit loss reserve calculated based on standards prescribed by the FSC. As of December 31, 2015, the Bank's regulatory reserve for credit losses was ₩1,827 billion.

The following tables set forth the FSC's guidelines for the classification of loans and the minimum percentages of the outstanding principal amount of the relevant loans or balances that the credit loss reserve must cover:

Loan Classification	Loan Characteristics
Normal	Loans extended to customers that, based on the Bank's consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the loans.
Precautionary	Loans extended to customers that (i) based on the Bank's consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the loans, although showing no immediate default risk or (ii) are in arrears for one month or more but less than three months.
Substandard	<ul style="list-style-type: none"> (i) Loans extended to customers that, based on the Bank's consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or (ii) the portion that the Bank expects to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (c) extended to customers who have outstanding loans that are classified as "doubtful" or "estimated loss."
Doubtful	<p>Loans exceeding the amount that the Bank expects to collect of total loans to customers that:</p> <ul style="list-style-type: none"> (i) based on the Bank's consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or (ii) have been in arrears for three months or more but less than twelve months.
Estimated loss	<p>Loans exceeding the amount that the Bank expects to collect of total loans to customers that:</p> <ul style="list-style-type: none"> (i) based on the Bank's consideration of their business, financial position and future cash flows, are judged to be accounted as a loss because the inability to repay became certain due to serious deterioration in their ability to repay;

Loan Classification

Loan Characteristics

- (ii) have been in arrears for twelve months or more; or
- (iii) have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

<u>Loan Classifications</u>	<u>Corporate⁽¹⁾</u>	<u>Consumer</u>
Normal	0.85% or above	1% or above
Precautionary	7% or above	10% or above
Substandard	20% or above	20% or above
Doubtful	50% or above	55% or above
Estimated loss	100%	100%

Note:

- (1) Subject to certain exceptions pursuant to the Banking Industry Supervision Regulation of Korea.

Investment Portfolio

Investment Policy

The Bank invests in and trades Won-denominated and, to a lesser extent, foreign currency-denominated securities for its own account to:

- maintain the stability and diversification of the Bank’s assets;
- maintain adequate sources of back-up liquidity to match the Bank’s funding requirements; and
- supplement income from the Bank’s core lending activities.

In making securities investments, the Bank takes into account a number of factors, including macroeconomic trends, industry analysis and credit evaluation in determining whether to make particular investments in securities.

The Bank’s investments in securities are also subject to a number of guidelines, including limitations prescribed under the Financial Holding Company Act and the Bank Act. Under these regulations, the Bank must limit its investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the BOK and national government bonds) to 100% of its total Tier I and Tier II capital amount (less any capital deductions). Generally, the Bank is also prohibited from acquiring more than 15% of the shares with voting rights issued by any other corporation subject to certain exceptions. Pursuant to the Bank Act, a bank and its trust accounts are prohibited from acquiring the shares of a major shareholder (for the definition of “major shareholder,” see “Government Regulation — Regulation and Supervision of the Guarantor — Legal and Regulatory Framework in Korea — Financial Exposure to Any Individual Customer and Major Shareholder”) of that bank in excess of an amount equal to 1% of the sum of the bank’s Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing the Bank’s investment activities is set out in “Government Regulation — Regulation and Supervision of the Guarantor — Legal and Regulatory Framework in Korea — Liquidity” and “Government Regulation — Regulation and Supervision of the Guarantor — Legal and Regulatory Framework in Korea — Restrictions on Shareholdings in Other Companies.”

The following table sets out the definitions of the four categories of securities the Bank holds:

Category	Classification
Financial assets held for trading	Financial assets bought and held for trading.
Financial assets designated at fair value through profit or loss	Financial assets which were not bought and held for trading but are otherwise designated as at fair value through profit or loss.
Available-for-sale financial assets	Non-derivative financial assets not classified as held-to-maturity, at fair value through profit or loss or loans and receivables.
Held-to-maturity financial assets	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity.

The Bank also holds limited balances of venture capital securities, non-marketable and restricted equity securities and derivative instruments.

Carrying Amount and Fair Value

The following table sets out, on a consolidated basis, the carrying amount and fair value of securities in the Bank's securities portfolio as of the dates indicated:

	As of December 31,					
	2013		2014		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<i>(in billions of Won)</i>					
Available-for-sale financial assets:						
Equity securities	₩ 2,643	₩ 2,643	₩ 2,718	₩ 2,718	₩ 2,869	₩ 2,869
Debt securities						
Korean treasury securities and government agency securities	6,528	6,528	4,214	4,214	3,202	3,202
Debt securities issued by financial institutions ..	5,201	5,201	6,260	6,260	6,377	6,377
Corporate debt securities.	3,509	3,509	4,743	4,743	3,534	3,534
Asset-backed securities.	1,193	1,193	1,198	1,198	5,181	5,181
Total available-for-sale financial assets	19,075	19,075	19,134	19,134	21,163	21,163
Held-to-maturity financial assets:						
Debt securities						
Korean treasury securities and government agency securities	3,685	3,847	2,725	2,903	1,871	2,020
Debt securities issued by financial institutions ..	770	779	1,047	1,057	2,024	2,039
Corporate debt securities.	6,189	6,344	5,880	6,053	3,710	3,828
Asset-backed securities.	367	368	472	474	4,144	4,186
Total held-to-maturity financial assets	11,011	11,338	10,124	10,487	11,749	12,073

	As of December 31,					
	2013		2014		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<i>(in billions of Won)</i>					
Financial assets at fair value through profit or loss:						
Financial assets held for trading:						
Equity securities	157	157	100	100	61	61
Debt securities						
Korean treasury securities and government agency securities	1,760	1,760	2,035	2,035	1,301	1,301
Debt securities issued by financial institutions	3,156	3,156	3,581	3,581	3,134	3,134
Corporate debt securities	1,470	1,470	1,204	1,204	1,438	1,438
Asset-backed securities	282	282	282	282	218	218
Others	204	204	267	267	196	196
Others	40	40	51	51	69	69
Total financial assets held for trading	7,069	7,069	7,520	7,520	6,417	6,417
Financial assets designated at fair value through profit or loss:						
Derivative linked securities	—	—	—	—	70	70
Total financial assets designated at fair value through profit or loss	—	—	—	—	70	70
Total financial assets at fair value through profit or loss	7,069	7,069	7,520	7,520	6,487	6,487
Total securities	₩37,156	₩37,482	₩36,778	₩37,142	₩39,399	₩39,723

Maturity Analysis

For information regarding the scheduled maturities of the Bank's securities portfolio and other financial assets as of December 31, 2015, see Note 4.3.3 of the notes to the Bank's consolidated financial statements included elsewhere in this offering circular.

Concentrations of Risk

As of December 31, 2015, the Bank held, on a consolidated basis, the following securities of individual issuers where the aggregate carrying amount of those securities exceeded 10% of the Bank's total equity at such date. As of December 31, 2015, the Bank's total equity, on a consolidated basis, was ₩22,747 billion.

Name of issuer:	Carrying Amount	Fair Value
	<i>(in billions of Won)</i>	
Korea Housing Finance Corporation	₩ 9,467	₩ 9,510
Government	6,215	6,684
BOK	3,374	3,374
Korea Development Bank	2,604	2,614
Total	₩21,660	₩ 22,182

The Korea Housing Finance Corporation is owned by the Government and the BOK. The BOK is controlled by the Government, whereas the Korea Development Bank is wholly-owned by the Government.

Funding

The Bank obtains funding for its lending activities from a variety of sources, both domestic and foreign. The Bank's principal source of funding is customer deposits. In addition, the Bank acquires funding through long-term borrowings (comprising debentures and debts), short-term borrowings, including borrowings from the BOK, and call money.

The Bank's primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and time deposits. The Bank also has focused its marketing efforts on higher net worth individuals, who account for a significant portion of the assets in its retail deposit base.

The Bank's borrowings consist of issuances of debentures and debt from financial institutions, the Government and Government-affiliated funds. The majority of the Bank's debt is long-term, with maturities ranging from one year to 30 years.

Deposits

Although the majority of the Bank's deposits are short-term, it has been the Bank's experience that the majority of the Bank's depositors generally roll over their deposits at maturity, providing the Bank with a stable source of funding.

The following table shows, on a consolidated basis, the average balances of the Bank's deposits and the average rates paid on such deposits for the periods indicated:

	For the Years Ended December 31,					
	2013		2014		2015	
	Average balance⁽¹⁾	Average Rate Paid	Average balance⁽¹⁾	Average Rate Paid	Average balance⁽¹⁾	Average Rate Paid
	<i>(in billions of Won, except percentages)</i>					
Demand deposits:						
Non-interest bearing . . .	₩ 3,440	—	₩ 3,565	—	₩ 3,836	—
Interest bearing	60,847	0.47%	67,596	0.42%	82,694	0.35%
Time deposits	130,147	3.02	130,171	2.70	123,843	2.16
Certificates of deposit	1,788	3.02	1,692	2.72	3,671	1.91
Average total deposits	<u>₩196,222</u>	<u>2.18%</u>	<u>₩203,024</u>	<u>1.89%</u>	<u>₩214,044</u>	<u>1.42%</u>

Note:

(1) Average balances are based on daily balances.

For a description of the Bank's retail deposit products, see "— Business — Retail Banking — Deposit-Taking Activities."

Time Deposits and Certificates of Deposit

The following table presents, on a consolidated basis, the remaining maturities of the Bank's time deposits and certificates of deposit which had a fixed maturity in excess of ₩100 million as of December 31, 2015:

	<u>Time Deposits</u>	<u>Certificates of Deposit</u>	<u>Total</u>
	<i>(in billions of Won)</i>		
Maturing within three months	₩ 22,859	₩ 1,639	₩ 24,498
After three but within six months	10,772	2,110	12,882
After six but within 12 months	23,140	830	23,970
After 12 months	3,915	—	3,915
Total	<u>₩ 60,686</u>	<u>₩ 4,579</u>	<u>₩ 65,265</u>

Long-Term Borrowings

The aggregate amount of contractual maturities of all long-term borrowings (comprising debentures and debt) of the Bank, on a consolidated basis, as of December 31, 2015 was as follows:

	<u>As of December 31, 2015</u>
	<i>(in billions of Won)</i>
Due in 2016	₩ 8,642
Due in 2017	5,292
Due in 2018	2,671
Due in 2019	506
Due in 2020	2,589
Thereafter	3,120
Gross long-term borrowings	22,820
Fair value adjustments	30
Deferred financing costs	(1)
Discount	(14)
Total long-term borrowings, net	<u>₩ 22,835</u>

Short-Term Borrowings

The following table presents, on a consolidated basis, information regarding the Bank's short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated:

	As of and for the Year Ended December 31,					
	2013		2014		2015	
	<i>(in billions of Won, except percentages)</i>					
Call money:						
Year-end balance	₩	2,568	₩	2,822	₩	2,011
Average balance ⁽¹⁾		4,532		4,036		2,975
Maximum balance ⁽²⁾		5,593		5,415		3,984
Average interest rate ⁽³⁾		2.10%		1.86%		1.18%
Year-end interest rate		0.17-5.20%		0.16-1.98%		0.24-5.00%
Borrowings from the BOK:⁽⁴⁾						
Year-end balance		558		1,003		1,421
Average balance ⁽¹⁾		649		763		1,323
Maximum balance ⁽²⁾		917		1,048		1,610
Average interest rate ⁽³⁾		1.08%		0.92%		0.72%
Year-end interest rate		0.50-1.00%		0.05-1.00%		0.50-0.75%
Other short-term borrowings:⁽⁵⁾						
Year-end balance		3,518		6,898		3,974
Average balance ⁽¹⁾		4,672		5,420		5,816
Maximum balance ⁽²⁾		5,566		7,399		7,085
Average interest rate ⁽³⁾		0.71%		1.11%		0.94%
Year-end interest rate		0.00-4.81%		0.00-4.81%		0.00-8.62%

Notes:

- (1) Average balances are based on daily balances.
- (2) Maximum balances are based on month-end balances.
- (3) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
- (4) Borrowings from the BOK generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
- (5) Other short-term borrowings include securities sold under repurchase agreement, bills sold, borrowings and debentures. Other short term borrowings have maturities of one year or less.

Risk Management

As a financial services provider, the Bank is exposed to various risks related to its lending and trading businesses, its funding activities and its operating environment. The Bank's goal in risk management is to ensure that it identifies, measures, monitors and controls the various risks that arise, and that its organization adheres strictly to the policies and procedures which it has established to address these risks. Under the Bank's internal regulations pertaining to its capital adequacy ratio and internal standards for risk appetite and economic capital under Basel III, the Bank identifies the following eight separate categories of risk inherent in its business activities: credit risk, market risk, operational risk, interest rate risk, liquidity risk, credit concentration risk, reputation risk and strategic

risk. Of these, the principal risks to which the Bank is exposed are credit risk, market risk, liquidity risk and operational risk, and it strives to manage these and other risks within acceptable limits.

The Bank delegates risk management authority to its Risk Management Committee. The Risk Management Committee measures and monitors the various risks faced by the Bank and reports to the Bank's board of directors regarding decisions that it makes on risk management issues. The Risk Management Committee also makes certain strategic risk-related decisions regarding the operations of the Bank, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the Bank can trade. The major activities of the Risk Management Committee include:

- determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of risk in accordance with group policy established by KB Financial Group;
- reviewing and analyzing the Bank's risk profile;
- setting limits for and adjusting the risk capital allocation plan and risk levels for each business unit within the Bank; and
- monitoring compliance with the group-wide risk management policies and practices at the business unit and entity level.

The Risk Management Committee is supported by the Risk Management Council, which serves as the executive decision making body for the Bank's risk management operations. At the operational level, the Bank's Risk Management Department and the Credit Group work closely with its business groups to implement risk management strategies, policies and procedures in accordance with the directives set forth by KB Financial Group's Group Risk Management Committee and the risk management strategies determined by the Bank's Risk Management Committee.

Credit Risk Management

Credit risk is the risk of expected and unexpected losses in the event of borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios. The Bank determines the creditworthiness of each type of borrower or counterparty through reviews conducted by its credit experts and through its credit rating systems, and the Bank sets a credit limit for each borrower or counterparty.

The Bank assesses and manages all credit exposures. The Bank measures expected losses and economic capital on assets (whether on- or off-balance sheet) that are subject to credit risk management and uses expected losses and economic capital as management indicators. The Bank manages credit risk by allocating credit risk economic capital limits. In addition, the Bank controls credit concentration risk exposure by applying and managing total exposure limits to prevent excessive risk concentration to particular industries or borrowers. Credit exposures that the Bank assesses and manages include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. The Bank's risk appetite, which is the ratio of its required economic capital to its estimated available book capital, is approved by KB Financial Group's Group Risk Management Committee once a year. Thereafter, the Bank calculates economic capital every month for each business group and bank-wide based on attributed economic capital in accordance with the risk appetite as approved by the Group Risk Management Committee. The Bank measures and reports profiles of credit risk on a bank-wide level and by business group regularly to relevant business groups and senior management, including the Risk Management Council and the Risk Management Committee.

The Bank uses expected default rates and recovery rates to determine the expected loss rate of a borrower or counterparty. The Bank uses the expected loss rate to make credit related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision making. These rates are calculated using information gathered from its internal database. With respect to large corporate borrowers, the Bank also uses information provided by external credit rating services to calculate default rates and recovery rates.

The Bank's credit risk management processes include:

- establishing credit policy;
- credit evaluation and approval;
- industry assessment;
- total exposure management;
- collateral evaluation and monitoring;
- credit risk assessment;
- early warning and credit review; and
- post-credit extension monitoring.

Market Risk Management

The major risk to which the Bank is exposed is interest rate risk on debt instruments and interest bearing securities and, to a lesser extent, stock price risk and foreign exchange risk. The financial instruments that expose the Bank to these risks are securities and financial derivatives. The Bank is not exposed to commodity risk, the other recognized form of market risk, as it currently does not engage in commodities trading. The Bank is also exposed to interest rate risk and liquidity risk in its banking book. The Bank divides market risk into risks arising from trading activities and risks arising from non-trading activities.

The Bank's Risk Management Council establishes overall market risk management principles. It has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee, which is chaired by its chief risk officer. This subcommittee meets on a regular basis each month and as required to respond to developments in the market and the economy. Based on the policies approved by the Risk Management Council, the Market Risk Management Subcommittee reviews and approves reports as required that include trading profits and losses, position reports, limit utilization, sensitivity analysis and value at risk ("VaR") analysis results for the Bank's trading activities.

The Risk Management Council is responsible for interest rate and liquidity risk management of non-trading activities. It meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Risk Management Council, acting through the Bank's Risk Management Department, review the Bank's interest rate and liquidity gap position monthly, as well as the business profile and its impact on asset and liability management.

To ensure adequate interest rate and liquidity risk management, the Bank has assigned the responsibilities for its asset and liability risk management to its Risk Management Department in its

Risk Management Group, which monitors and reviews the asset and liability operating procedures and activities of its Financial Planning Department and independently reports to the management on the related issues.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds resulting from, for example, maturity mismatches, obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Bank manages its liquidity in order to meet its financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. The Bank also requires sufficient liquidity to fund loans, to extend other credits and to invest in securities. The Bank's liquidity management goal is to meet all its liability repayments on time and fund all investment opportunities even under adverse conditions. To date, the Bank has not experienced significant liquidity risk.

The Bank maintains liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. The Bank also manages 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 funds the Bank believes it could raise by issuing securities. The Bank seeks to minimize its liquidity costs by managing its liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest-earning assets or securities.

The Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. The Bank funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than 90 days), issuing debentures and borrowing from the BOK and others. The Bank uses the majority of funds it raises to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, the Bank manages liquidity using a cash flow structure based on holding short-term liabilities and long-term assets. Generally, the average initial contract maturity of the Bank's new Won-denominated time deposits was less than one year, while during the same period most of its new loans and securities had maturities over one year.

The Bank manages liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the FSC. The FSC requires Korean banks, including the Bank, to maintain a liquidity coverage ratio of not less than 85% from January 1, 2016 to December 31, 2016 (compared to not less than 80% from January 1, 2015 to December 31, 2015), with such minimum liquidity coverage ratio to increase in increments of 5% per annum to 100% by 2019, and a foreign currency liquidity ratio of not less than 85%. The FSC defines the liquidity coverage ratio as the ratio of highly liquid assets to total net cash outflows over a one-month period. The highly liquid assets and total net cash outflows included in the calculation of the liquid coverage ratio are determined in accordance with the "Standards for Calculation of Liquidity Coverage Ratio" under the Detailed Regulation on the Supervision of the Banking Business.

The Bank's Treasury Department is responsible for daily liquidity management of the Bank's Won and foreign currency exposure. The Treasury Department reports monthly plans for funding and operations to the Asset Liability Management Committee, which discusses factors such as interest rate movements and maturity structures of the Bank's deposits, loans and securities and establishes strategies with respect to deposit and lending rates.

Operational Risk Management

Overall Status

There is no complete consensus on the definition of operational risk in the banking industry. The Bank defines operational risk broadly to include all financial and non-financial risks, other than credit risk, market risk, interest rate risk and liquidity risk, that may arise from its operations that could negatively impact its capital, including the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events as defined under Basel II. The Bank's operational risk management objectives include not only satisfying regulatory requirements, but also providing internal support through the growth of a strong risk management culture, reinforcement of internal controls, improvement of work processes and provision of timely feedback to management members and staff throughout the Bank.

While the Bank's Risk Management Department advises relevant business units with respect to the review of and suggested improvements on related operational processes and procedures, each of the Bank's relevant business units has primary responsibility for the management of its own operational risk. In addition, the Operational Risk Unit, which is part of the Bank's Risk Management Department, monitors bank-wide operational risk. The Bank also has business line operational risk managers in all of its subsidiaries, departments and branches who periodically conduct control self-assessments and monitor key risk indicators.

Management

The Bank's board of directors has ultimate responsibility for the management of the Bank's affairs. The Bank's Articles of Incorporation provide for a board of no more than 30 directors, of which three or more must be non-executive directors and non-executive directors must comprise more than half of the board of directors. The Bank currently has two executive directors and four non-executive directors. The Bank elects its directors at a general meeting of shareholders by a majority vote of those present or represented at such meeting as long as the affirmative votes represent at least a quarter of the Bank's total issued and outstanding shares with voting rights.

The term of office for each of the Bank's executive directors is three years and for each of the Bank's non-executive directors is two years for the initial term and one year for any subsequent term, provided that, if a director's term of office expires after the end of a fiscal year but before the convening of the general shareholders' meeting concerning the said fiscal year, his/her term of office shall be extended until the end of the general shareholders' meeting. The Bank's directors may serve consecutive terms and are subject to the Korean Commercial Code, the Bank Act and related regulations.

The business address of all of the directors is the Bank's registered office at 84, Namdaemoon-ro, Jung-gu, Seoul 04534, Korea.

Executive Directors

The table below sets forth the names, years of birth and positions of the Bank's executive directors as of the date of this offering circular.

Name	Year of Birth	Position	Start of Term	End of Term
Jong Kyoo Yoon . . .	1955	President and CEO	November 21, 2014	November 20, 2017
Hong Lee	1958	Senior Executive Vice President; Strategy and Finance Planning Group	January 12, 2015	December 31, 2016

Non-executive Directors

The non-executive directors are outside directors elected from among those persons who do not have a special relationship with the Bank that would interfere with the exercise of their independent judgment. The Bank's non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economics, management and accounting. The table below sets forth the names, years of birth and positions of the Bank's non-executive directors as of the date of this offering circular.

Name	Year of Birth	Position	Start of Term	End of Term
Ha Hyun Cho	1955	Non-executive Director	March 26, 2015	March 23, 2017
Woo Chan Kim	1960	Non-executive Director	March 26, 2015	March 23, 2017
Soon Ae Park	1965	Non-executive Director	March 26, 2015	March 23, 2017
Seung Won Yoo	1965	Non-executive Director	March 26, 2015	March 23, 2017

Executive Officers

The table below sets forth the names, years of birth and positions of the Bank's executive officers (other than its executive directors) as of the date of this offering circular.

Name	Year of Birth	Position
In Hur	1961	Senior Executive Vice President; Sales Group
Kwi Sang Jun	1960	Senior Executive Vice President; Corporate Investment Banking Group
Jeong Lim Park	1963	Senior Executive Vice President; Credit Group
Ki Heon Kim	1955	Senior Executive Vice President; Information Technology Group
Oh Sung Lee	1959	Senior Executive Vice President; Shared Service Group
Pyoung Seob Oh	1960	Senior Managing Director; Customer Service Group
Yong Deok Lee	1960	Senior Managing Director; SME/SOHO Banking Group
Jae Hong Park	1967	Senior Managing Director; Global Business Division
Hyo Jung Kim	1961	Managing Director; Wealth Management Group
Ki Hwan Kim	1963	Managing Director; Risk Management Group
Hong Seob Shin	1962	Managing Director; Consumer Brand Strategy Group

Name	Year of Birth	Position
Chang Won Kim	1961	Managing Director; Trust Division
Sang Hyo Lee	1960	Managing Director; Chief Compliance Officer
Young Yeob Ahn	1961	Managing Director; Information Security Division

Compensation

The aggregate remuneration paid and benefits in kind granted by the Bank to its president and chief executive officer, its other executive directors, its non-executive directors and its executive

officers for the year ended December 31, 2015 was ₩8,796 million. In addition, for the year ended December 31, 2015, the Bank set aside ₩116 million for allowances for severance and retirement benefits for the Bank's president and chief executive officer, the other executive directors and the Bank's executive officers.

Committees of the Board of Directors

The Bank currently has the following committees that serve under the board:

- the Audit Committee;
- the Risk Management Committee;
- the Evaluation & Compensation Committee;
- the Non-executive Director Nominating Committee; and
- the Audit Committee Member Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Audit Committee

The Audit Committee currently consists of three non-executive directors, Woo Chan Kim, Soon Ae Park and Seung Won Yoo. The chairperson of the Audit Committee is Woo Chan Kim. The Audit Committee oversees the Bank's financial reporting and approves the appointment of the Bank's independent registered public accounting firm. The committee also reviews the Bank's financial information, auditor's examinations, key financial statement issues, the plans and evaluation of internal control and the administration of the Bank's financial affairs by the board of directors. In connection with the general meetings of shareholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of shareholders. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of two non-executive directors, Seung Won Yoo and Ha Hyun Cho, and one executive director, Hong Lee. The chairperson of the Risk Management Committee is Seung Won Yoo. The Risk Management Committee oversees and makes determinations on all issues relating to the Bank's comprehensive risk management function. In order to ensure the Bank's stable financial condition and to maximize the Bank's profits, the committee monitors the Bank's overall risk exposure and reviews the Bank's compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions and reviews risk-based capital allocations. The committee holds regular meetings every quarter. See "— Risk Management."

Evaluation & Compensation Committee

The Evaluation & Compensation Committee currently consists of two non-executive directors, Soon Ae Park and Woo Chan Kim, and one executive director, Hong Lee. The chairperson of the

Evaluation & Compensation Committee is Soon Ae Park. The Evaluation & Compensation Committee reviews compensation schemes and compensation levels and is also responsible for evaluating management's performance.

Non-executive Director Nominating Committee

The committee currently consists of four non-executive directors, Ha Hyun Cho, Woo Chan Kim, Soon Ae Park and Seung Won Yoo, together with the Bank's president and chief executive officer, Jong Kyoo Yoon. The committee oversees the selection of non-executive director candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the non-executive directors until the nominated non-executive directors are appointed.

Audit Committee Member Nominating Committee

The committee currently has no members. The last meeting of the committee was on March 24, 2015 to nominate Woo Chan Kim, Soon Ae Park and Seung Won Yoo as new Audit Committee members. The committee oversees the selection of Audit Committee member candidates and recommends them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the Audit Committee members until the Audit Committee members are appointed.

THE ISSUER

We operate Korea's leading mobile platform service. We aim to provide our users with an expanding array of mobile services that satisfy their lifestyle needs by enabling them to conduct more aspects of their daily affairs using their mobile devices at their convenience. We offer users the ability to communicate, play games, search content, shop and make payments online using our mobile services, which include Kakao Talk, Korea's largest mobile instant messaging service in 2015 according to Nielsen KoreanClick (based on monthly average users aged 7 to 69 using mobile applications on Google Android mobile operating systems). We also offer O2O services, and Kakao Taxi, our mobile service connecting taxi drivers to passengers, which was launched in 2015, has become Korea's leading taxi mobile application based on daily taxi requests, according to our internal estimates. In addition, we provide a variety of web-based search, e-mail, online community and other services through our operation of one of Korea's leading portal websites, www.daum.net. We believe that the integration of our services through our mobile platform provides our users a smoother and richer connection experience that contributes to higher user loyalty and growth of our user base and business.

We were formed through the merger of Old Kakao with and into Daum on October 1, 2014. Founded in December 2006 as IWILAB Co., Ltd., Old Kakao launched Kakao Talk and changed its name to Kakao Corp. in 2010. With over 20 years of operational history since its founding in February 1995, Daum introduced Korea's first free email service, Daum Mail (formerly known as Hanmail), in 1997, and its search engine, Daum Search, was the second most utilized web-based search engine in Korea in 2015 according to Nielsen KoreanClick (based on personal computer and mobile device search time among users aged 7 to 69). On March 16, 2016, we acquired an aggregate of 76.4% of the outstanding Shares, as a result of which LOEN became a consolidated subsidiary of our company. See "— The Acquisition."

We generate revenues by leveraging the large number of affiliations and interests that connect the people and entities that constitute our user base and mobilizing our users to actively and repeatedly engage and interact with the wide variety of services and contents we provide on our mobile platform. Our revenues are primarily generated from advertising services, games and online commerce.

The Acquisition

On March 16, 2016, we completed our acquisition of 15,528,590 Shares and 3,793,756 Shares, representing 61.4% and 15.0%, respectively, of the outstanding Shares, from SIH, an affiliate of Affinity Equity Partners, and SK Planet, a wholly-owned subsidiary of SK Telecom, for a total consideration amount of ₩1,874 billion. Consideration for the Acquisition consisted of ₩1,120 billion in cash and 6,913,339 of our newly issued common shares. Such common shares were listed on the KRX KOSPI Market on April 1, 2016 and may not be disposed of until the expiration of one year from March 31, 2016. As a result of the Acquisition, LOEN became our consolidated subsidiary and SIH and SK Planet became owners of 8.2% and 2.0% of our outstanding common shares, respectively. See "LOEN" and "Selected Consolidated Financial Information — Consolidated Financial Information of LOEN."

LOEN

Overview

LOEN is a leading music entertainment company in Korea, offering a wide range of services that cover key components of the music industry value chain. LOEN operates the following:

- MelOn, Korea's leading online music streaming and downloading service, with a market share of approximately 60% of the Korean online retail music market in 2015 based on revenues, according to its internal estimates.
- LOEN Music, Korea's leading music distributor, with a market share of approximately 24% of the Korean wholesale music distribution market in 2015 based on revenues, according to its internal estimates. Through LOEN Music, LOEN engages in online and offline distribution of music and also operates 1theK, a global K-pop channel on YouTube and social network services.
- Production companies under multiple brands focusing on specific entertainment markets, including LOEN Tree, Starship Entertainment, Kingkong Entertainment and Plan A Entertainment (formerly A Cube Entertainment), which manage many of the leading K-pop musicians, as well as actors, and provide infrastructure for creation of attractive music content.

LOEN believes that its vertically-integrated platform encompassing a comprehensive range of music-related services gives it a competitive advantage compared to other music entertainment companies in Korea, enabling LOEN to gain greater insight into, and more effectively respond to, rapidly evolving trends in the music industry, as well as providing it with a more efficient cost structure. Leveraging its integrated platform, strong brand power and substantial experience in the Korean music market, LOEN aims to enhance its position as a leading music entertainment company in Korea and to take advantage of business opportunities offered by the increasing global popularity of K-pop.

Seoul Record, the predecessor company to LOEN, was founded in 1978. SK Telecom, Korea's largest mobile telecommunications service provider, purchased a majority interest in the company in 2005, and subsequently transferred its MelOn operations to LOEN in 2008. In 2013, SK Telecom sold a 53% interest in LOEN to SIH, an affiliate of Affinity Equity Partners. On March 16, 2016, we completed our acquisition of 61.4% and 15.0% of the outstanding Shares from SIH and SK Planet (a wholly-owned subsidiary of SK Telecom), respectively, as a result of which LOEN became a consolidated subsidiary of our company. See "The Issuer — The Acquisition."

LOEN's operating revenue amounted to ₩358 billion and its profit for the period amounted to ₩50 billion in 2015. LOEN had total assets of ₩363 billion and total equity of ₩246 billion as of December 31, 2015. See "Selected Consolidated Financial Information — Consolidated Financial Information of LOEN."

Services

Online Music Services

LOEN operates MelOn, Korea's leading online music streaming and downloading service. MelOn currently offers a selection of more than 6.2 million songs and possesses what LOEN believes to be the largest subscriber base among online music services in Korea, consisting of

approximately 3.7 million subscribers as of December 31, 2015. MelOn had 3.6 million users who paid for its services in December 2015. MelOn's subscribers streamed 32 billion songs and downloaded 620 million songs in 2015, including streaming of 3 billion songs and downloading of 53 million songs in December 2015. Approximately 70% of MelOn's current subscribers consist of those between the ages of 19 and 35 years.

LOEN offers MelOn services in various formats that are specifically designed for the following devices:

- **Mobile devices** — For smartphone users, the MelOn Smartphone App can be downloaded through a variety of mobile operating systems, including Android, iOS and Bada. For tablet users, the MelOn Tablet App is similarly available for download through different systems and provides multi-tasking functions suitable for tablets. MelOn also operates websites specifically designed for smartphones and tablets.
- **Personal computers** — The MelOn PC Player program is available for installation on personal computers that run on various operating systems, including Windows, and enables users to keep track of their database of music in digital format and transfer files to mobile devices. For users of iTunes, MelOn PC Player works compatibly with iTunes to transfer unrestricted digital music files downloaded through MelOn.
- **Televisions** — The MelOn TV App is specifically designed for smart televisions with an Internet connection, and provides music video and digital music playback functions using the television remote control.

MelOn offers a broad selection of Korean and international music, both in streaming and download formats, as well as a variety of features designed to enhance the experience of users. For example, users of streaming services are able to indicate “like” or “dislike” with respect to a song as it is being played, and MelOn makes music recommendations based on data collected from users. MelOn also highlights the latest music releases by popular artists in Korea and abroad. Other features include MelOn Charts, which provides music and album rankings based on various categories; Melon DJ, which plays music selected by Korea's leading disk jockeys; MelOn TV, which plays various streaming video content, including music videos, clips of music contest shows and interviews of musicians; and MelOn Radio, which offers numerous channels that play a selection of songs grouped under a common theme.

Such features on MelOn enable LOEN to accumulate subscriber information, including their preference for music genres and artists as well as their purchasing patterns. LOEN continuously monitors and analyzes such data to better understand demand trends for various subscriber segments. LOEN also develops analytical models based on such customer data to identify and recommend songs of a particular genre or artist to subscribers who are likely to make additional purchases. Through such analyses, LOEN is also able to identify the types of offers and promotions to which select subscribers will likely respond, which enables LOEN to more effectively design and target its marketing activities. LOEN obtains music content for its MelOn online music service both internally from its contents distribution business as well as from third-party music distributors in Korea and abroad, and pays fees for such content based on its sales. See “— Contents Distribution — Online Distribution.”

Leveraging its experience and position in the online music service sector in Korea, LOEN is seeking to diversify into other businesses that complement its MelOn service. For example, LOEN launched MelOn Shopping in July 2015, an application that serves as a virtual marketplace where MelOn users can purchase CDs, headphones and other items offered by music production companies in promotion of their artists.

Pricing

LOEN offers a wide range of payment plans that seek to address the individual needs of its MelOn subscribers. For downloading of digital music, LOEN charges ₩700 per download for songs in MP3 format and between ₩900 to ₩1,000 per download for songs in FLAC (free lossless audio codec) format, which provides higher quality sound. Subscribers also have the option to purchase monthly packages that provide a discount for higher volume downloads of music in MP3 format, ranging from ₩9,500 for up to 30 downloads per month to ₩28,500 for up to 150 downloads per month. Subscribers can also download music videos at ₩1,000 per download for standard resolution, ₩1,500 for high-definition resolution, and ₩2,000 for full high-definition resolution.

For MelOn's streaming services, LOEN charges ₩7,400 per month for access through mobile devices, or ₩8,400 per month for access through both mobile devices and personal computers. Subscribers are also able to combine streaming services with downloading of music in DRM (digital rights management) format that restricts access after a 30-day period. LOEN charges ₩10,400 per month for unlimited mobile downloading of music in DRM format combined with streaming access through both mobile devices and personal computers, and an additional ₩1,000 per month for up to 100 downloads of music in DRM format for personal computers. Subscribers may also combine streaming services with packages that enable downloads of music in unrestricted MP3 format, ranging from ₩13,500 for unlimited streaming and up to 30 downloads per month to ₩32,500 for unlimited streaming and up to 150 downloads per month.

For MelOn subscribers who elect to automatically renew their monthly packages, LOEN typically provides a ₩500 discount. Members of T-Membership, a loyalty program operated by SK Telecom, also enjoy discounts of between 30% to 50% for monthly packages. LOEN also offers subscribers an option to settle payments using MelOn Cash, a virtual currency that can be accumulated through various means, including conversion of SK Planet's virtual currency, OK Cashback Points, and redemption of gift certificates.

Contents Distribution

LOEN enters into arrangements, generally on an exclusive basis, with various production companies (including those that are a part of its contents production operations) for online and offline distribution of music content. See “— Contents Production.” Since the foundation of Seoul Record in 1978, LOEN has accumulated close to four decades of experience in distributing music content in Korea that spans all major music genres. In 2015, LOEN provided online and offline distribution services for more than 400 albums. LOEN generates sales from distribution of new releases of current artists as well as existing recordings provided by production companies. LOEN distributes such music content primarily in digital formats to online music service providers, which offer such content to their users through downloads and streaming, and to a lesser degree in CD or DVD format to physical wholesale and retail sellers. In recent years, following the general trend of the music industry, the importance of online distribution channels has increased significantly compared to offline distribution channels.

Online Distribution

In Korea, there has been a proliferation of websites and mobile applications that sell digital music on a per-album or per-track basis or offer subscription and streaming services. In addition to MelOn, LOEN has music content distribution arrangements with a number of online music service providers, including M.net, Genie, Bugs! and Soribada. For online music content distribution in digital formats, per-unit costs related directly to physical products such as manufacturing, physical distribution, inventory management and return costs do not apply. While there are some digital-specific

variable costs and infrastructure investments needed to prepare, market and sell music content in digital formats, music distributors generally derive a higher margin from digital format sales than physical product sales.

LOEN enters into agreements with online music service providers to make music content available for access in digital formats such as digital downloads, streaming and mobile ringtones. Such agreements require the online music service providers to pay specified fees to LOEN based on their sales of such content. LOEN typically receives sales accounting reports and payments from online music service providers on a periodic basis, detailing their sales activity.

Offline Distribution

Most of LOEN's sales of music content in CD or DVD format are made to physical wholesale or retail sellers in Korea, including music specialty stores, general entertainment specialty stores, discount stores, mass merchants and other traditional retailers. In addition, sales to both the online distribution arms of traditional retailers and online retailers has become an increasingly important sales channel for CDs and DVDs. LOEN's sale and return policies are in accordance with wholesaler and retailer requirements, applicable laws and regulations, as well as industry practice.

Global K-pop Contents Distribution

In light of the increasing popularity of K-pop around the world, LOEN operates 1theK, a global K-pop channel on YouTube and social network services. As of March 31, 2016, the channel had approximately 4.0 million subscribers on YouTube, the vast majority of whom are non-Koreans living abroad. LOEN believes that 1theK is an effective and cost-efficient way to distribute K-pop contents to the global audience.

Contents Production

LOEN operates a network of production companies in Korea for musicians, actors and other entertainment industry personnel. In addition to operating its own production company under the LOEN Tree brand, LOEN holds a 64.8% interest in Starship Entertainment, which it acquired in December 2013. Kingkong Entertainment, which focuses on management of actors and actresses, is a wholly owned subsidiary of Starship Entertainment. LOEN also acquired a 70.0% interest in A CUBE Entertainment (now Plan A Entertainment) in November 2015. Services provided by LOEN through its production companies encompass all stages of the production process for music content, including identifying promising recording artists and entering into management contracts with them, collaborating with such artists to produce audio and video recordings of their work, and market and sell such recordings to music distributors. LOEN also provides general management services for artists, including in respect of advertising, merchandising, sponsorships, touring and other promotional activities.

The following is a list of representative artists and actors managed by LOEN through its various production companies.

Brand	Category	Representative Artists
LOEN Tree	Solo music artist Music group Actor / actress	IU, Zia, Yoon Hyun-Sang, Shin Zi Su Sunny Hill, Fiesta, History Kim Suk Hoon, Jo Han Sun, Lee Jung Hyuk, Kang Bok Eum
Starship Entertainment	Solo artist Music group Actor	K.will, Mad Clown, Junggigo, Jooyoung, Yu Seung Woo Sistar, Boyfriend, Monsta X Choi Won Myeong
Kingkong Entertainment	Actor / actress	Lee Kwang Soo, Lee Dong Wook, Yoo Yeon Seok, Park Hee Soon, Kim Beom, Kim Ji An, Kim Ji Won, Park Min Woo, Oh Ah Yeon, Yoon Ji Ni, Lee Jin, Lim Ju Eun, Jeong Dong Hyun, Cho Yoon Woo, Cho Yoon Hee, Ji Il Joo and Han Min
Plan A Entertainment (formerly A Cube Entertainment)	Solo music artist Music group	Huh Gak Apink

Recording Artists' Contracts. Artists' contracts define the commercial relationship between the recording artist and the production company. LOEN negotiates agreements with artists that define its rights to use the artists' copyrighted recordings. While the duration of the contracts may vary, LOEN's contracts with its recording artists typically grant LOEN the right to use the artists' recordings for the duration of the copyright. In accordance with the terms of the contract, the artists receive royalties based on sales and other forms of utilization of the artists' recorded works and performances. LOEN customarily provides up-front advance payments to artists, which are recoupable from future royalties and other commissions otherwise payable to the artists. LOEN typically pays costs associated with the training of new artists as well as production costs of albums and music videos. The vast majority of the contracts are "expanded-rights" arrangements, pursuant to which LOEN shares in the touring, merchandising, sponsorship/endorsement, fan club and other non-traditional music revenues associated with its artists.

LOEN's contracts with established artists generally provide for greater advances and higher royalty rates, and entitle LOEN to fewer albums, compared to its contracts with new artists. It is not unusual for LOEN to renegotiate contract terms with a successful artist during the term of the existing contract, sometimes in return for an increase in the number of albums that the artist is required to deliver.

Marketing

Marketing and promotional activities are critical aspects of LOEN's online music services and other operations and have significantly contributed to the enhancement of the brand image of MelOn, as well as its other brands. The proliferation and diversity of available marketing channels, including the continual development and adoption of new interactive technologies and media, have made it more difficult and complex for music service providers to reach their target audiences in an effective and efficient manner. Leveraging its long experience in the Korean music industry and its understanding of

evolving demand trends across different customer segments, LOEN seeks to utilize an optimal mix of channels to market its services to target audiences, including television, the Internet (including social network sites), radio and print media.

LOEN also sponsors various promotional events, including concert performances and celebrity appearances, which it believes has contributed to enhancing its brand recognition. For example, LOEN sponsors the MelOn Awards, which are weekly awards conferred based on online voting by MelOn subscribers. LOEN also hosts a major offline music award event held in December of each year. In addition, LOEN launched the LOEN Music Camp in 2015, which provides underprivileged teenagers interested in the music industry with opportunities to receive training and further develop their talent.

LOEN also pursues various marketing opportunities jointly with SK Telecom (the parent company of SK Planet, which previously held a 15.0% interest in LOEN) to further strengthen its subscriber base. LOEN offers special discounts on MelOn subscriptions to members of the T-Membership program, the customer rewards program of SK Telecom, as well as to SK Telecom subscribers with select mobile telecommunications service packages. MelOn's VIP Program, its customer rewards program, is also an important component of its marketing and brand loyalty strategy. The VIP Program is designed to recognize and reward MelOn's most loyal customers based on the length of their subscription. Program members are able to participate in various promotional events based on their tier status within the VIP Program.

Competition

The music entertainment industry in Korea is highly competitive and changes rapidly based on evolving consumer preferences as well as new technological developments.

LOEN competes with various companies in each of its business areas as follows:

- **Online music services** — MelOn competes primarily with other online music service providers in Korea for users and sales of music content to them. Competition is based a number of factors, including overall quality of the user experience, breadth and depth of available music content, ease of use, price, accessibility, attractiveness of features, brand awareness and reputation. MelOn is the leading online music service provider in Korea, with a market share of approximately 60% of the Korean online retail music market in 2015 based on revenues, according to its internal estimates. The principal competitors of MelOn include M.net, Genie, Bugs! and Soribada. In recent years, due to the growth in music piracy, MelOn has also been forced to compete with illegal online music content channels, such as unauthorized peer-to-peer file-sharing websites.
- **Contents distribution** — LOEN Music competes primarily with other music distribution companies in Korea for contracts with production companies for online and offline distribution of music content, Competition is based mainly on reputation, strength of distribution channels and price. LOEN Music is Korea's leading music distributor with market share of approximately 24% of the Korean wholesale music distribution market in 2015 based on revenues, according to its internal estimates. The principal competitors of LOEN Music are M.net and KT Music.
- **Contents production** — LOEN's production companies compete mainly with other production companies in Korea in signing and managing recording artists, as well as actors and other entertainment industry personnel, and in producing and marketing music content to music distributors. Competition is based primarily on reputation, strength of production and management capabilities, ability to identify promising new artists and the

attractiveness of contract terms offered to artists. The principal competitors of LOEN's production companies include other leading Korean production companies such as SM Entertainment, YG Entertainment and JYP Entertainment, as well as mid-sized and smaller players in the industry that specialize in particular music genres.

In addition, LOEN and other music entertainment companies in Korea compete, to a lesser extent, for users and sales with alternative forms of entertainment, content and leisure activities, including cable, satellite and Internet-protocol television, films on DVD and digital format, the Internet, mobile applications, online games and live performances.

Intellectual Property

LOEN owns various trademarks, service marks and related logos, including "LOEN Entertainment," "LOEN Music," "1theK" and "MelOn" used in its content distribution and online music services operations, as well as "LOEN Tree," "Starship Entertainment," "Kingkong Entertainment" and "Plan A Entertainment" used in its content production business. LOEN's trademarks and service marks are registered in Korea, as well as being registered or in the process of being registered on a selective basis in certain foreign countries in which it does business or expects to do business in the future. LOEN also relies on trade secrets and unpatented proprietary know-how and information to help maintain its competitive position in each of its business areas. LOEN regards its intellectual property rights as valuable assets in the marketing of its services and seeks to take appropriate action when necessary to protect them.

Properties

LOEN's principal owned properties consist of two corporate vacation facilities located in the Jeju and Pyeongchang regions of Korea, respectively, and storage facilities in Korea. As of December 31, 2015, the land and buildings that LOEN owned were recorded at a total book value of ₩1 billion. In addition, LOEN leases building space in Korea for administrative offices and production teams, including approximately 10,268 square meters of office space in the Jung Seok Building located in Seoul which is used as LOEN's head office.

Employees

The following table provides a breakdown of LOEN's employees, not including those of its subsidiaries, by type as of the dates indicated:

Personnel Type	As of December 31,			
	2014		2015	
	<i>(number of personnel, except percentages)</i>			
Full-time employees	260	87.7%	323	89.5%
Contract employees	38	12.7	38	10.5
Part-time employees	2	0.6	—	—
Total	300	100.0%	361	100.0%

LOEN's success depends to a significant extent upon its ability to attract, retain and motivate qualified personnel. LOEN dedicates significant resources to training its employees. LOEN also provides increases in basic wages and pays periodic bonuses to its full-time employees. LOEN also provides benefits such as medical insurance, employment insurance and workers' compensation to its full-time employees as well as various fringe benefits.

Legal and Regulatory Proceedings

LOEN is subject to a number of claims and is a party to a number of legal and regulatory proceedings that are incidental to the normal course of its business. LOEN is not currently involved in any litigation, administrative proceeding or arbitration, the outcome of which would, in the reasonable judgment of its management, have a material adverse effect on its financial condition or results of operations.

Management

Board of Directors

LOEN's board of directors has ultimate responsibility for the administration of LOEN's affairs. LOEN's articles of incorporation currently provide for a board of directors consisting of three to nine directors. Directors are elected at a general meeting of shareholders by a majority vote of those present or represented at the meeting so long as such votes also represent no less than 25% of the issued and outstanding shares. The term of office for LOEN's directors is three years. However, the term of office will be extended to the close of the annual general meeting of shareholders convened with respect to the last fiscal year within such term of office. LOEN's board of directors currently has eight members, including three executive directors and five independent "outside directors."

The representative directors are directors appointed by the board of directors and are empowered to make decisions regarding LOEN's day-to-day business. Won Soo Shin, our president, and Sung Hoon Park currently serve as LOEN's co-chief executive officers and representative directors.

Outside directors are non-standing directors elected from among those persons who do not have a special relationship with LOEN that would interfere with the exercise of their independent judgment. LOEN's outside directors are elected at the general meeting of shareholders from among those candidates recommended by LOEN's board of directors.

The table below sets forth select information about LOEN's directors, as of the date of this offering circular. The business address of each of LOEN's directors and executive officers is at LOEN's registered office at Jeongseok Building, 17, Teheran-ro 103-gil, Gangnam-gu, Seoul 06173, Korea.

Name	Year of Birth	Position	End of Current Term	Other Positions
Won Soo Shin	1963	President, Representative Director and Co-Chief Executive Officer	March 2018	Former head of contents division, SK Telecom
Sung Hoon Park	1973	Representative Director and Co-Chief Executive Officer	March 2019	Chief strategy officer, Kakao
Beomsu Kim	1966	Standing Director	March 2019	Chairman, Kakao
Sung Tai Hong	1955	Outside Director;	March 2019	Professor, Hanyang University
Shin Jang Kang	1958	Outside Director; member of the audit committee	March 2019	Representative director, Monnaissance

Name	Year of Birth	Position	End of Current Term	Other Positions
Yichan Hong	1967	Outside Director; member of the audit committee	March 2019	Representative director, Contents Cube
Ilho Kim	1968	Outside Director; member of the audit committee	March 2019	Representative director, OCON
Jong-Hun Park	1968	Outside Director	March 2019	Professor, Seoul National University

Won Soo Shin is LOEN's president, representative director and co-chief executive officer. Mr. Shin formerly served as head of the contents division at SK Telecom. Mr. Shin holds a bachelor's degree in environmental engineering from Kyung Hee University.

Sung Hoon Park is LOEN's representative director and co-chief executive officer and is our chief strategy officer. Mr. Park formerly served as vice president of CJ Corporation and was previously a partner at Boston Consulting Group and a partner at Bain & Company. Mr. Park holds a bachelor's degree in business administration from Seoul National University.

Beomsu Kim is one of LOEN's standing directors and is the chairman of our board of directors. Mr. Kim is the co-founder of K Cube Ventures and formerly served as the chief executive officer of NHN Corporation. Mr. Kim holds a master's degree in industrial engineering from Seoul National University.

Sung Tai Hong is one of LOEN's outside directors. Mr. Hong is a professor of marketing at Hanyang University. Mr. Hong holds a doctorate degree in business administration from the University of Illinois.

Shin Jang Kang is one of LOEN's outside directors and a member of its audit committee. Mr. Kang is the representative director of Monnaissance. Mr. Kang holds a bachelor's degree in economics from Hanyang University.

Yichan Hong is one of LOEN's outside directors and a member of its audit committee. Mr. Hong is the representative director of Contents Cube and formerly served as the chief financial officer of NHN. Mr. Hong holds a bachelor's degree in business administration from Hanyang University.

Ilho Kim is one of LOEN's outside directors and a member of its audit committee. Mr. Kim is the representative director of OCON. Mr. Kang holds a bachelor's degree in industrial design from Seoul National University.

Jong-Hun Park is one of LOEN's outside directors. Mr. Park is a professor of industrial engineering at Seoul National University. Mr. Park holds a doctorate degree in industrial and systems engineering from the Georgia Institute of Technology.

Executive Officers

LOEN's executive officers currently consist of its representative director, appointed by its board of directors, and two standing directors, elected at the general meeting of shareholders.

Board Practices

LOEN's articles of incorporation provide for the establishment of the following committees under its board of directors:

- audit committee; and
- such other committees as deemed necessary by its board of directors.

Audit Committee

LOEN has an audit committee which must consist of three or more directors. Two-thirds or more of LOEN's audit committee must be outside directors. The audit committee reviews all audit and compliance-related matters and makes recommendations to LOEN's board of directors. LOEN's audit committee's primary responsibilities include:

- reviewing and approving LOEN's financial statements;
- requesting LOEN's board of directors to convene a special meeting of its shareholders by submitting a document stating the objectives and reasons for a special meeting of shareholders;
- engaging LOEN's independent auditors; and
- other responsibilities delegated by LOEN's board of directors.

Currently, LOEN's audit committee consists of three outside directors: Shin Jang Kang, Yichan Hong and Ilho Kim.

Compensation of Directors and Executive Officers

The aggregate remuneration paid and benefits in kind granted to LOEN's directors (including LOEN's executive officers) in each of 2014 and 2015 was ₩1 billion.

Stock Options

As of December 31, 2015, no stock options had been granted to any of LOEN's directors or executive officers.

Interests of Directors and Executive Officers

As of December 31, 2015, there were no outstanding transactions other than in the ordinary course of business undertaken by LOEN in which LOEN's directors were interested parties.

Other than as set forth in "— Principal Shareholders," LOEN's directors (including its executive officers) do not have ownership interests in the Shares. Certain of LOEN's directors and executive officers have direct or beneficial interests in companies with which LOEN has engaged in transactions, including those in the ordinary course of business. As a result, potential conflicts of interest between their duties to LOEN and their private interests could arise.

Principal Shareholders

The following table sets forth information relating to the shareholder composition of LOEN as of the date of this offering circular:

<u>Shareholders</u>	<u>Number of Shares</u>	<u>Ownership Percentage</u>
Kakao	19,328,672 ⁽¹⁾⁽²⁾	76.40%
Samsung Asset Management ⁽³⁾	1,010,384	3.99
Won Soo Shin ⁽⁴⁾	6,326	0.03
Others	4,925,649	19.58
Total	<u>25,291,705</u>	<u>100.00%</u>

- (1) An aggregate of 2,191,885 Shares to be delivered upon exercise of the Exchange Rights under the Bonds will be deposited for the term of the Bonds with the KSD, and we have created for the benefit of the Guarantor, as consideration for providing the Guarantee, an encumbrance on our right to receive such Shares upon redemption of the Bonds and an encumbrance on an additional 2,529,171 Shares, which are enforceable by the Guarantor if it is required to make payments under the Guarantee.
- (2) We have loaned to NH Investment & Securities Co., Ltd. an aggregate of 2,191,885 Shares which, under the terms of the Securities Lending Agreements with each of the Managers, will be loaned to the Managers from time to time in order to facilitate on-lending transactions with investors in the Bonds, who may use such Shares to establish their hedge positions in respect of the Bonds. See "Summary — The Offering — Securities Lending."
- (3) Based on a report filed by Samsung Asset Management on April 8, 2016.
- (4) Representative director and co-chief executive officer of LOEN.

Except as described above, no other person or entity or group of persons or entities known by LOEN to be acting in concert, directly or indirectly, owned 5% or more of the Shares or exercised control or could exercise control over LOEN as of the date of this offering circular.

LOEN's principal shareholders do not have different voting rights from its other shareholders.

Description of Capital Stock

This sub-section provides information relating to the Shares, including brief summaries of material provisions of LOEN's articles of incorporation, the Financial Investment Services and Capital Markets Act (the "FSCMA"), the Korean Commercial Code and related laws of Korea, all as currently in effect. LOEN is subject to the FSCMA, the Korean Commercial Code and other relevant securities regulations applicable to a listed company. The following summaries are subject to, and are qualified in their entirety by reference to, LOEN's articles of incorporation and the applicable provisions of the FSCMA and the Korean Commercial Code.

General

Under LOEN's articles of incorporation, LOEN's authorized share capital is 100,000,000 shares, which consists of Shares with a par value of ₩500 per share. As of the date of this offering circular, 25,291,705 Shares are issued. All of the issued Shares are fully-paid and non-assessable and are in registered form. LOEN issues share certificates in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Under the Korean Commercial Code, a company may issue shares with no par value, if provided for in the articles of incorporation of the company, which was not previously allowed under the Korean Commercial Code prior to an amendment that became effective as of April 15, 2012. However,

a company may not have shares issued and outstanding with and without par value at the same time. If a company wishes to issue shares with no par value, the existing shares issued by the company with par value must be converted to shares with no par value and such conversion procedure must be set forth in the articles of incorporation of the company. As of the date of this offering circular, LOEN's articles of incorporation do not allow the issuance of shares with no par value.

Dividends

LOEN distributes dividends to holders of the Shares in proportion to the number of Shares owned by each shareholder. Dividend payments on the Shares are non-cumulative.

LOEN may distribute annual dividends in cash or in newly issued Shares. Under Article 462-4 of the Korean Commercial Code, in-kind distribution of dividends, other than cash or newly issued shares, are permitted if provided for in the articles of incorporation of the company. As of the date of this offering circular, LOEN's articles of incorporation allow in-kind distribution of dividends. Pursuant to the FSCMA, in the case of listed companies, if the market price of the shares is less than par value, a dividend in newly issued shares may not exceed one-half of the annual dividends. Annual dividends, if any, on the Shares must be recommended by LOEN's board of directors and must be approved at LOEN's annual general meeting of shareholders, which is held within three months following the end of LOEN's fiscal year. The annual dividend is generally paid shortly thereafter to the shareholders or registered pledgees of record as of the end of the preceding fiscal year. Under Articles 449-2 and 462 of the Korean Commercial Code, the board of directors of a company may approve annual dividends if permitted by its articles of incorporation. As of the date of this offering circular, LOEN's articles of incorporation do not allow the board of directors to approve annual dividends.

In addition, quarterly dividends, which may be declared and paid to LOEN's shareholders or registered pledgees of record as of the end of each of March, June and September of a given fiscal year, must be approved by a resolution of LOEN's board of directors. Such resolution of LOEN's board of directors approving quarterly dividends must be adopted within 45 days of the end of each of March, June and September of such fiscal year. LOEN has no obligation to pay any annual cash dividend unclaimed for five years from the payment date, at which time rights to such dividends lapse. Unclaimed cash dividends revert to LOEN.

Under the Korean Commercial Code, LOEN may pay an annual dividend only out of the excess of its net assets, on a non-consolidated basis, over the sum of (1) its stated capital, (2) the total amount of its capital surplus reserve and earned surplus reserve which would have accumulated up to the end of the relevant dividend period, (3) the earned surplus reserve required to be set aside for the annual dividend and (4) any increase in net assets caused by the valuation of assets and liabilities performed in accordance with Korean accounting principles, against which no unrealized loss is set off. In addition, LOEN may not pay any dividend unless it has set aside as a legal reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless it has accumulated a legal reserve of not less than one-half of its stated capital. LOEN may also set aside certain amounts as "other reserves" for certain purposes with the approval of shareholders at the annual general meeting of shareholders instead of distributing such amounts as dividends. LOEN may not use legal reserves to pay cash dividends but may transfer amounts from legal reserves to capital stock or use legal reserves to reduce an accumulated deficit.

Voting Rights

Holders of the Shares are entitled to one vote for each Share, except that voting rights of Shares held by LOEN, or by a corporate shareholder more than 10% of the outstanding shares of capital stock of which is directly or indirectly owned by LOEN and/or its parent company and/or subsidiaries, individually or in the aggregate, may not be exercised.

In the case of listed companies, for the purpose of electing or dismissing a statutory auditor or a member of the audit committee who is not an independent director, if the number of shares with voting rights held by any of the following shareholders exceeds, in the aggregate, 3% of the total number of issued and outstanding shares with voting rights, then such shareholder may not exercise its voting rights with respect to the shares it holds in excess of such 3% threshold: the largest shareholder, a shareholder specially related to the largest shareholder, any shareholder who holds shares for the account of the largest shareholder or a person specially related to the largest shareholder, or any shareholder who appoints the largest shareholder or a person specially related to the largest shareholder as a proxy for the exercise of voting rights. In addition, in the case of listed companies with total assets of ₩2 trillion or more as of the end of the latest fiscal year, if the aggregate number of shares with voting rights held by any shareholder exceeds 3% of the total number of issued and outstanding shares with voting rights, then such shareholder may not exercise its voting rights with respect to the shares it holds in excess of such 3% threshold for the purpose of electing a member of the audit committee who is an independent director. While the articles of incorporation of a company may prescribe a threshold shareholding percentage that is lower than 3%, LOEN's articles of incorporation do not provide for a lower threshold shareholding percentage.

The Korean Commercial Code permits cumulative voting, under which each shareholder has multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director. However, LOEN has not adopted the cumulative voting method.

LOEN's shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of LOEN's total voting shares then issued and outstanding. However, under the Korean Commercial Code, the following matters, among others, require approval by the holders of at least two-thirds of the voting shares present or represented at a meeting, where the affirmative votes also represent at least one-third of LOEN's total voting shares then issued and outstanding:

- amending its articles of incorporation;
- removing a director or a statutory auditor;
- effecting any dissolution, merger or consolidation;
- transferring the whole or any significant part of its business;
- effecting its acquisition of all of the business of any other company, provided that the Korean Commercial Code does not require approval by the holders of at least two-thirds of the voting shares present if such acquisition does not have a material effect on its business;
- leasing or delegating the management of its entire business, or executing, amending or terminating any agreement relating to sharing of all profits and losses of its business with any other person or any other similar agreement;
- effecting its acquisition of a part of the business of any other company which acquisition may have a material effect on its business;
- issuing any new Shares at a price lower than their par value; or
- reducing capital.

Shareholders may exercise their voting rights by proxy.

Liquidation Rights

In the event of LOEN's liquidation, after payment of all debts, liquidation expenses and taxes, LOEN's remaining assets will be distributed among holders of Shares in proportion to their shareholdings.

Different Class of Shares

The Korean Commercial Code permits the issuance of different classes of shares regarding dividend of profits, exclusion of voting rights, redemption and conversion of shares. The type and number of different classes of shares must be set forth in the articles of incorporation. Under LOEN's articles of incorporation, it may issue convertible class shares ("Convertible Class Shares") as different classes of shares from the Shares by a board of directors' resolution. Holders of Convertible Class Shares are entitled to receive preferred dividends; however, such shares do not carry any voting rights. Convertible Class Shares may be converted into Shares after five years from the date of issuance of such Convertible Class Shares. As of the date of this offering circular, LOEN has not issued any different classes of shares, including Convertible Class Shares.

Distribution of Free Shares

In addition to paying dividends in Shares out of its retained or current earnings, LOEN may also distribute to its shareholders an amount transferred from its legal reserve including capital surplus to its stated capital in the form of free Shares. LOEN must distribute such free Shares to all of its shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

LOEN may issue authorized but unissued Shares on such date and, unless otherwise provided in the Korean Commercial Code, on such terms that its board of directors may determine. Subject to the limitations described below, all of LOEN's shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. LOEN must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on its shareholders' registry as of the relevant record date. LOEN must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. LOEN's board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or forfeited or where fractions of shares occur.

Under LOEN's articles of incorporation, LOEN may also issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, in any of following cases:

- In case new Shares are issued by general public offering by the resolution of the board of directors in accordance with Article 165-6 of the FSCMA;
- In case new Shares are allotted preferentially to LOEN's Employee Stock Ownership Association or the members thereof within the limit of 20% of the total number of new Shares to be issued in accordance with the relevant laws and regulations;
- In case new Shares are issued pursuant to an exercise of stock options in accordance with Article 340-2 and Article 542-3 of the Korean Commercial Code;

- In case new Shares are issued pursuant to the issuance of depositary receipts (DR) in accordance with Article 165-11 of FSCMA;
- In case new Shares are issued as a result of a foreign investment in accordance with the Foreign Investment Promotion Act; or
- In case new Shares are issued for the purpose of attaining certain business goals such as the adoption of new technology or improvement of financial structures in accordance with Article 418-2 of the Korean Commercial Code.

However, the Korean Commercial Code requires LOEN to notify the existing shareholders at least two weeks prior to its receipt of subscription funds in the event that it issues new shares to persons other than existing shareholders.

General Meeting of Shareholders

LOEN holds its annual general meeting of shareholders within three months after the end of each fiscal year.

Subject to a board resolution or court approval, LOEN may hold an extraordinary general meeting of shareholders as necessary.

LOEN must give shareholders written or electronic notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, LOEN may give notice to holders who hold 1% or less of the total number of its issued and outstanding voting shares by placing at least two public notices in the *Korea Economic Daily* and the *Maeil Business News Korea*, both daily newspapers published in Seoul, or posting such notice on the electronic disclosure system operated by the Korea Exchange or the FSS at least two weeks in advance of the meeting. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting.

LOEN's general meetings of shareholders are held at or near its principal office.

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of LOEN's business and its merger or consolidation with another company, dissenting shareholders may have the right to require LOEN to purchase their Shares. To exercise this right, shareholders must submit to LOEN a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request LOEN in writing to purchase their Shares. LOEN is obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and LOEN. Under the FSCMA, if a listed company cannot agree on a price through negotiation with the dissenting shareholders, the purchase price will be the average of (1) the weighted average of the daily common share price on the KRX KOSDAQ Market for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily common share price on the KRX KOSDAQ Market for the one-month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily common share price on the KRX KOSDAQ Market for the one week period before the date of the adoption of the relevant resolution. However, if either LOEN or the relevant shareholder object to the purchase price calculated using the method above, the objecting party may ask the court to determine the purchase price.

Registry of Shareholders and Record Dates

LOEN's transfer agent, Korea Securities Depository, maintains the registry of LOEN's shareholders at its office at 40, Munhyeongeumyung-ro, Nam-gu, Busan 48400, Korea. It registers transfers of Shares on the registry of shareholders on presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders or the Share pledgees entitled to the rights pertaining to the Shares, LOEN may suspend the alteration of entry in the registry of shareholders for the period from January 1 to January 31 of each year. Furthermore, for the purpose of determining the shareholders or the Share pledgees entitled to the rights pertaining to the Shares, LOEN may, on at least two weeks' public notice and upon a resolution of its board of directors, set a record date or close the registry of shareholders for not more than three months. The trading of Shares and the delivery of Share certificates may continue while the registry of shareholders is closed.

Annual Report

At least one week prior to the annual general meeting of shareholders, LOEN must make its annual report and audited financial statements available for inspection at its principal office and at all of its branch offices. In addition, copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be available to its shareholders.

Under the FSCMA, a listed company must file with the FSC and the Korea Exchange (1) an annual business report within 90 calendar days after the end of its fiscal year and (2) interim reports with respect to the three-month period, six-month period and nine-month period from the beginning of each fiscal year within 45 calendar days following the end of each period. Copies of these reports are or will be available for public inspection at the FSC and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of Shares is effected by the delivery of share certificates. However, to assert shareholders' rights against LOEN, the transferee must have its name and address registered on LOEN's shareholders' registry. For this purpose, a shareholder is required to file its name, address and seal with LOEN's transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless the non-Korean shareholder is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notice on its behalf in Korea and file a mailing address in Korea.

Under current Korean regulations, Korean foreign exchange banks, investment dealers, investment brokers, collective investment companies (including licensed branches of non-Korean banks, investment dealers, investment brokers and collective investment companies), internationally recognized foreign custodians and the Korea Securities Depository may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of Shares by non-residents of Korea or non-Koreans. See "Korean Foreign Exchange and Securities Regulations."

Acquisition of Shares by LOEN

LOEN generally may not acquire the Shares except in certain limited circumstances, including, without limitation, acquisition of Shares in connection with a merger or a reduction in capital. Under the Korean Commercial Code, LOEN may acquire Shares to the extent of its profits that can be distributed as dividends.

Pursuant to the FSCMA, a listed company may acquire its own common shares through purchases on the Korea Exchange or through a tender offer. A listed company may also acquire interests in its own common shares through trust agreements with trust companies. The aggregate purchase price for the common shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year, subject to certain procedural requirements.

In general, corporate entities in which LOEN owns over 50% of equity interest may not acquire Shares.

Market Price Information for the Shares

The Shares were listed on the KRX KOSDAQ Market in December 2000. The following table sets forth the high and low closing prices and the average daily volume of trading activity on the KRX KOSDAQ Market for the Shares since 2011.

Period	Closing Price		Average Daily
	High	Low	Trading Volume
	<i>(In Won)</i>		<i>(Number of Shares)</i>
2011	₩21,950	₩ 5,900	685,620
First Quarter	8,850	5,900	124,861
Second Quarter	8,900	6,020	190,588
Third Quarter	16,400	7,930	1,269,007
Fourth Quarter	21,950	12,900	1,123,465
2012	17,550	10,000	311,030
First Quarter	17,550	13,100	439,725
Second Quarter	15,550	10,000	244,418
Third Quarter	16,100	10,450	307,440
Fourth Quarter	16,350	11,600	250,602
2013	17,750	12,500	182,351
First Quarter	16,200	12,600	272,705
Second Quarter	16,200	12,500	245,501
Third Quarter	14,850	12,650	85,374
Fourth Quarter	17,750	13,300	127,279
2014	49,900	17,050	104,780
First Quarter	22,950	17,050	66,546
Second Quarter	33,400	22,450	119,671
Third Quarter	49,900	28,850	134,285
Fourth Quarter	47,450	37,800	98,480
2015	96,900	42,300	61,167
First Quarter	54,800	42,300	67,782
Second Quarter	80,500	45,100	63,984
Third Quarter	96,900	73,700	59,687
Fourth Quarter	84,000	64,300	53,573
2016 (through May 4)	91,500	68,800	78,900
January	83,100	68,800	123,942
February	88,500	77,800	61,447
March	91,500	78,100	43,506
April	82,300	71,900	91,341
May (through May 4)	78,900	75,500	70,385

Source: The Korea Exchange

Dividends

LOEN's dividend policy is to declare annual dividends, if any, in amounts that take into consideration various factors, including its profitability and financial condition, as well as legal requirements for such declaration. Annual dividends, if any, on the Shares are recommended by LOEN's board of directors and must be approved at its annual general meeting of shareholders. This meeting is generally held in March of the following year, and the annual dividend is generally paid shortly thereafter to the shareholders or registered pledgees of record as of the end of the preceding fiscal year. Quarterly dividends, if any, can be declared by a resolution of LOEN's board of directors. Once declared, dividends must be claimed within five years, after which the right to receive the dividends will be extinguished and the dividends revert to LOEN. See "— Description of Capital Stock — Dividends."

Payments of cash dividends and distributions, if any, will be made in Won to the Korea Securities Depository.

The table below sets forth dividends declared and paid on the Shares to LOEN's shareholders of record on December 31 of the years indicated, as well as the number of outstanding Shares entitled to such dividends. The dividends set forth for each of the years below were paid in the immediately following year.

<u>Year Ended December 31,</u>	<u>Number of Outstanding Shares</u>	<u>Dividends per Share</u>	<u>Total Amount of Dividends Declared</u>
		<i>(In Won)</i>	<i>(In millions of Won)</i>
2014	25,291,705	₩ 711	₩ 17,982
2015	25,291,705	—	—

LOEN has not declared any quarterly dividends to date.

GOVERNMENT REGULATION

Regulation and Supervision of the Guarantor

Overview

The banking system in Korea is governed by the Bank Act of 1950, as amended (the "Bank Act") and the Bank of Korea Act. In addition, Korean banks are subject to regulations and supervision of the BOK, the MPC, the FSC and its executive body, the FSS.

The BOK, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The BOK acts under instructions of the MPC, the supreme policy-making body of the BOK.

Under the Bank of Korea Act, the MPC's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the BOK.

The FSC, established in April 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, the FSC regulates market entry into the banking business.

The FSS, established in January 1999, is subject to the instructions and directives of the FSC and carries out supervision and examination of commercial banks. In particular, the FSS sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the FSC regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the FSC. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for a period not exceeding one year or subject to the limitation established by the FSC, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of time deposits with maturities of at least one year, or the issuance of debentures or other bonds. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as trust business, must obtain approval from the FSC. Approval to merge with any other banking institution, to liquidate, spin off, close a banking business or to transfer all or a part of a banking business must also be obtained from the FSC.

If the FSC deems a bank's financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the FSC may order:

- admonitions, warnings or reprimands with respect to its officers and employees;
- capital increases or reductions;
- assignments of contractual rights and obligations relating to financial transactions;
- a suspension of performance by its officers of their duties and the appointment of receivers;

- stock cancellations or consolidations;
- disposals of property holdings;
- closures of subsidiaries or branch offices or downsizing;
- mergers with other financial institutions;
- acquisition of such bank by a third party; or
- suspensions of a part or all of its business operations.

Capital Adequacy

The Bank Act requires nationwide banks, such as the Bank, to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Detailed Regulation on the Supervision of the Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of (i) common equity Tier I capital, including paid-in capital, capital surplus and retained earnings related to common equity and accumulated other comprehensive gains and losses, and (ii) additional Tier I capital, including paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital and are subordinated to subordinated debt. Tier II capital (supplementary capital) consists of, among other things, capital and capital surplus from the issuance of Tier II capital, allowances for loan losses on loans classified as “normal” or “precautionary,” subordinated debt and other capital securities which meet the standards prescribed by the governor of the FSS under Article 26(2) of the Regulation on the Supervision of the Banking Business.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with FSC requirements that have been formulated based on Bank of International Settlements standards. These requirements were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the FSS of the Basel II. Under such requirements, all domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%. Commencing in July 2013, the FSC promulgated amended regulations implementing Basel III in Korea, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of common equity of Tier I capital to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also require an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5% starting in 2016, which will be determined on a quarterly basis by the FSC. Furthermore, the Bank was designated as one of five domestic systemically important banks for 2016 by the FSC and may be subject to an additional capital requirement of 0.25% in 2016, if deemed necessary, with such potential requirement to increase in stages to 1.0% by 2019.

Under the Detailed Regulation on the Supervision of the Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

- for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50% or 70%; and
- for those banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Detailed Regulation on the Supervision of the Banking Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Regulation on the Supervision of the Banking Business. Banks may not invest an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to Government bonds, Monetary Stabilization Bonds issued by the BOK or debentures and stocks referred to in items 1 and 2, respectively, of paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry. The FSC uses the liquidity coverage ratio (described below) as the principal liquidity risk management measure, and currently requires each Korean bank to:

- maintain a liquidity coverage ratio (defined as the ratio of highly liquid assets to total net cash outflows over a one-month period) of not less than 85% from January 1, 2016 until December 31, 2016, with such minimum liquidity coverage ratio to increase in increments of 5% per annum to 100% by 2019;
- maintain a foreign currency liquidity ratio (defined as the ratio of foreign currency assets due within three months to foreign currency liabilities due within three months) of not less than 85%;
- maintain a ratio of foreign currency assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than negative 3%;
- maintain a ratio of foreign currency assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%; and
- submit monthly reports with respect to the maintenance of these ratios.

The MPC is empowered to fix and alter the minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratios are:

- 7% of average balances for Won currency demand deposits outstanding;
- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding (with respect to employee-related deposits, only if such deposits were made prior to February 28, 2013); and

- 2% of average balances for Won currency time deposits, installment savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7% minimum reserve ratio is applied to other deposits. A 1% minimum reserve ratio applies to deposits in offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks as well as foreign currency certificates of deposit held by account holders of such offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Furthermore, pursuant to the Regulation on the Supervision of the Banking Business, foreign exchange agencies, including the Bank, are required to hold “foreign currency safe assets” in an aggregate amount that is not less than the lower of (i) the product of (x) its total foreign currency-denominated debt maturing in one year or less, multiplied by 2/12 and (y) an amount equal to one minus the “lowest rollover ratio” and (ii) 2% of its total foreign currency-denominated assets as shown in its balance sheet for the immediately preceding quarter. The “lowest rollover ratio” of a foreign exchange agency means the ratio of (A) its total debt with a maturity of one year or less (excluding overnight money) incurred in a particular month to (B) its total debt with maturity of one year or less (excluding overnight money) payable in that particular month, and is calculated by taking the lowest three-month average from a period to be designated by the Governor of the FSS. Under the Regulation on the Supervision of the Banking Business, foreign currency-denominated debt maturing in one year or less includes financial bonds, borrowings, call monies and repurchase selling denominated in foreign currencies and such other similar debt instruments denominated in a foreign currency as designated by the Governor of the FSS. “Foreign currency safe assets” are defined as cash denominated in foreign currency, deposits denominated in foreign currency with a central bank or financial institutions rated A or above, bonds issued or guaranteed by a government or central bank rated A or above or corporate bonds issued or guaranteed by corporations rated A or above. Under the Regulation on the Supervision of the Banking Business, the Bank is also required to maintain a minimum “mid- to long-term foreign exchange funding ratio” of 100%. “Mid-to long term foreign exchange funding ratio” refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Financial Exposure to Any Individual Customer and Major Shareholder

Under the Bank Act, subject to certain exceptions, the sum of large exposures by a bank — in other words, the sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) — generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, subject to certain exceptions, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

The Bank Act imposes restrictions on the extension of credit by banks to a major shareholder. A “major shareholder” is defined as:

- a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank’s total issued and outstanding voting shares; or

- a shareholder holding (together with persons who have a special relationship with such shareholder) in excess of 4% in the aggregate of the bank's (excluding regional banks) total issued and outstanding voting shares of a bank (excluding shares subject to the shareholding restrictions on "non-financial business group companies" as described below), where such shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than ₩2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares.

Banks may not extend credits to a major shareholder (together with persons who have a special relationship with such shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholders' shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank's Tier I and Tier II capital (less any capital deductions).

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, last amended on March 3, 2016, interest rates on loans made by registered banks in Korea may not exceed 27.9% per annum. Such restriction on interest rates is scheduled to expire on December 31, 2018.

Lending to SMEs

In order to obtain funding from the BOK at concessionary rates for their loans extended to SME, banks are required to allocate a certain minimum percentage of any quarterly increase in their Won currency lending to SMEs. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank fails to comply with this requirement, the BOK may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to SMEs; or
- lower the bank's credit limit.

Disclosure of Management Performance

For the purpose of protecting depositors and investors in commercial banks, the FSC requires commercial banks to publicly disclose certain material matters, including:

- financial condition and profit and loss of the bank and its subsidiaries;
- fund raising by the bank and the appropriation of such funds;
- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the FSCMA, occurrence of any of the following events or any other event as prescribed by the applicable regulations:
 - loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated pursuant to the criteria under the Detailed Regulation on the Supervision of the Banking Business), unless the loan exposure to that group is not more than ₩4 billion;
 - the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds with respect to which damages are expected to exceed ₩1 billion, unless the governor of the FSS has made a public announcement after its investigation of the incident; and
 - any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than ₩1 billion.

Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank's own shares;
- loans directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans to any of the bank's officers or employees, other than de minimis loans of up to (i) ₩20 million in the case of a general loan, (ii) ₩50 million in the case of a general loan plus a housing loan, or (iii) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or
- loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to ₩20 million or general and housing loans of up to ₩50 million in the aggregate.

Regulations Relating to Retail Household Loans

The FSC has implemented a number of changes in recent years to the regulations relating to retail household lending by banks. Under the currently applicable regulations:

- as to loans secured by a collateral of housing (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60% (other than loans secured by collateral of housing (regardless of housing type or location) to be amortized over a period of ten years, for which the loan-to-value ratio should not exceed 70% as described below);
- as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (excluding apartments) located in areas of high speculation, in each case, as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;
- as to loans secured by apartments located in areas of high speculation as designated by the Government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over ₩600 million, and (b) 60%, if the price of such apartment is ₩600 million or lower;
- as to loans secured by collateral of housing (regardless of housing type or location) to be amortized over a period of ten years or more, further requirements relating to which are set forth in the Regulation on the Supervision of the Banking Business, the loan-to-value ratio should not exceed 70%;
- as to loans secured by apartments with appraisal value of more than ₩600 million in areas of high speculation as designated by the Government or certain metropolitan areas designated as areas of excessive investment by the Government, the borrower's debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) should not exceed 40%;
- as to apartments located in areas of high speculation as designated by the Government, a borrower is permitted to have only one new loan secured by such apartment;
- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the Government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and
- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the Government should not exceed 40%.

Restrictions on Investments in Property

A bank may not invest in securities set forth below in excess of 100% of the sum of the bank's Tier I and Tier II capital (less any capital deductions):

- debt securities (within the meaning of paragraph (3) of Article 4 of the FSCMA) the maturity of which exceeds three years, but excluding Government bonds, monetary

stabilization bonds issued by the BOK and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

- equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;
- derivatives linked securities (within the meaning of paragraph (7) of Article 4 of the FSCMA) the maturity of which exceeds three years; and
- beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the FSCMA) the maturity of which exceeds three years.

A bank may possess real estate property only to the extent necessary for the conduct of its business. The aggregate value of such property may not exceed 60% of the sum of the bank's Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

- that corporation engages in a category of financial businesses set forth by the FSC; or
- the acquisition of shares by the bank is necessary for the corporate restructuring of such corporation and is approved by the FSC.

In the above cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed (i) 15% of the sum of Tier I and Tier II capital (less any capital deductions) or (ii) 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the FSC.

The Bank Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the major shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15% of a regional bank's total issued and outstanding shares with voting rights. The Government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, pursuant to an amendment to the Bank Act which became effective on February 14, 2014, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% (or 15% in the case of a regional bank) of that bank's outstanding voting shares, unless they satisfy certain requirements set forth by the Enforcement Decree of the Bank Act, obtain the approval of the FSC and agree not to exercise voting rights in respect of shares in excess of the 4% limit (or the 15% limit in the case of a regional bank), in which case they may acquire beneficial ownership of up to 10% of a nationwide bank's outstanding voting shares. Such amendment grants an exception for non-financial business group companies which, at the time of the enactment of the amended provisions, held more than 4% of the shares of a bank.

“Non-financial business group companies” as defined under the Bank Act include:

- (1) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;
- (2) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than ₩2 trillion;
- (3) any mutual fund in which a same shareholder group identified in item (1) or (2) above beneficially owns and/or exercises the voting rights of more than 4% of the total issued and outstanding voting shares of such mutual fund;
- (4) any private equity fund with (a) a person falling under any of items (1) through (3) above as a limited partner holding not less than 10% of the total amount of contributions to the private equity fund, or (b) a person falling under any of items (1) through (3) above as a general partner, or (c) the total equity of the private equity fund acquired by each affiliate belonging to several enterprise groups subject to the limitation on mutual investment being 30% or more of the total amount of contributions to the private equity fund; or
- (5) any investment purpose company in which a private equity fund falling under item (4) above acquires or holds shares in excess of 4% of the shares or equity of such company or exercises de facto control over significant managerial matters of such company through appointment or dismissal of executives or in any other manner.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% (or 15% in the case of a regional bank) of that bank's outstanding voting shares, and in excess of 10% (or 15% in the case of a regional bank), 25% or 33% of that bank's outstanding voting shares with the approval of the FSC in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank's total voting shares issued and outstanding, unless they obtain approval from the FSC in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the FSC may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis and the rate is determined under the Enforcement Decree to the Depositor Protection Act. If the KDIC makes a payment on an insured amount, it will acquire the depositors' claims with respect to that payment amount. The KDIC insures a maximum of ₩50 million per individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Act of Korea. A bank must obtain the permission of the FSC to enter the securities business, which is governed by regulations under the

FSCMA. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Trust Business

A bank must obtain approval from the FSC to engage in trust businesses. The Trust Act and the FSCMA govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Trust Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and
- depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

Under the FSCMA, a bank with a trust business license (such as the Bank) is permitted to offer both specified money trust account products and unspecified money trust account products.

Regulation of the Issuer and LOEN

As a general matter, we and our Korean subsidiaries, including LOEN, are subject to rules and regulations applicable to corporations established under the Korean Commercial Code. Our business operations, including those of LOEN, are also regulated by a number of other Korean laws and regulations, including in particular those described below. In addition to the foregoing, we may be subject to government regulations of other jurisdictions where we undertake business activities.

Regulations Relating to Online Services in General

Under the Telecommunications Business Act (the "TBA"), telecommunications services are divided into two categories: telecommunications services such as telephone and online connection (including the business of leasing telecommunications line facilities) and additional communications services. The online services and the online contents services we provide are classified as additional communications services under the TBA, and we are registered as an additional communications services business operator.

Additional communications services offered by us are recognized as an online service provider's additional communications services for the purpose of transmitting of intellectual properties among different individuals, and are subject to the Copyright Act. Under the Copyright Act, if requested by the proprietor of the relevant intellectual property, we must take necessary measures including technical measures to block any illegal transmission of the relevant intellectual property. In addition, a telecommunications business operator is a provider of information and communications services under the Act on Promotion of Information and Communications Network Utilization and Information Protection, Etc., and we are obligated to protect users' personal information in accordance with such Act.

Regulations Relating to Online News Services

In order to electronically publish online newspapers or offer online news services, we are required to be registered under the Act on Promotion of Newspapers, Etc. and we have completed our registration in connection with our offering of online news services. As an online news service operator, we are required to distinguish between the news we publish and the news for which we act solely as

an intermediary. If any of the news for which we act solely as an intermediary is retransmitted to us by the original publisher due to changes in the title, contents or other circumstances, we are required to immediately update the news using the retransmitted versions.

Regulations Relating to Location Information Business

In relation to online mapping and location-based services, we offer services for collecting and providing location information, and location-based services using location information collected, which are subject to the Act on Protection and Utilization of Location Information (the "PULI Act"). The PULI Act is a special act enacted for the purpose of protecting sensitive personal location information. Under the PULI Act, a location-based service provider is required to make a filing with the Korea Communications Commission if, among other things, any of the following occurs: (i) any change in the name of the business entity, the address and the location of the information system, (ii) any change in standardized contractual terms and conditions for the services, (iii) suspension or closing of the business, or (iv) merger or acquisition of the business. Further, under the PULI Act, we are required to obtain consent from the proprietor of the relevant personal location information when utilizing or providing the personal location information, and if we wish to provide such personal location information to a third party designated by the proprietor of the respective personal location information, we must immediately notify the proprietor. We are prohibited from utilizing or providing personal location information beyond the scope set out in or as agreed to by the proprietor in the standardized contractual terms and conditions for the applicable services. We must immediately delete all relevant information including personal location information once we have fulfilled the purpose for which we collected such information.

Regulations Relating to Online Advertising Services

We are subject to the Act on Fair Labeling and Advertising in respect of our online advertising services. The Fair Trade Commission of Korea may issue a public notice pertaining to matters necessary to protect consumers and maintain fair transactions, requiring business operators to disclose such items in their advertisements ("Material Information") which (i) frequently have harmful effects on consumers if absent from the relevant advertisement or (ii) may affect consumers' decisions on the purchasing of goods or have harmful or dangerous effects on the life, body or personal property of the consumer if not properly forewarned. If any of the above are applicable, a business operator is required to include such Material Information in its advertisements.

Regulations Relating to Mobile Game Services

Among other applicable laws, the Game Industry Promotion Act (the "GIPA") and the Juvenile Protection Act (the "JPA") regulate mobile game businesses. Game production and distribution businesses are regulated under an advance registration scheme. The GIPA requires that a person who intends to engage in the game production or distribution business register with the relevant government authority. An amendment of important business matters must be registered as well. We are a registered game developer and a registered game distributor under the GIPA. The GIPA requires game companies to take certain measures to prevent gamers' excessive preoccupation with and addiction to games.

The JPA requires online game companies to restrict those under the age of 16 from accessing their online game websites between midnight and 6:00a.m. (known as the "shutdown" system). In addition, the JPA requires that juveniles under the age of 16 obtain parental/guardian consent before purchasing an online game subscription. The JPA also requires game companies to publish basic information including the nature, rating, and fee-charging policy of the game offered, hours of permissible game use and payment information.

Regulations Relating to Mobile Contents and Mobile Commerce Businesses

Among other applicable laws, the Act on Consumer Protection in Electronic Commerce, Etc. and the Electronic Financial Transactions Act apply in connection with electronic financial businesses such as the mobile commerce and mobile contents businesses.

Under the Act on Consumer Protection in Electronic Commerce, Etc., a business entity considering providing information on the sale of goods or services by means of mail, electronic communication or similar means and selling such goods or services (with an exception for solicitation by phone which is governed by the Act on Door-to-Door Sales, Etc.) is required to file for registration of a mail order distributorship with any of the Fair Trade Commission of Korea, a relevant provincial governor, a mayor, a municipal governor (*gunsu*) or a head of a borough (*gucheongjang*), as applicable. We have completed the relevant mail order distributorship registration.

In connection with (a) the issuance and management of an electronic prepayment means (i.e., any certificate, or information on such certificate, of transferable monetary values stored and issued in electronic form, which meets all requirements of the following items: (i) to be used to purchase goods or services from a third party and pay the prices thereof and (ii) to be used to purchase goods or services included in not less than two business categories), and (b) electronic payment settlement agency service (i.e., any service rendered to transmit or receive payment settlement information in connection with the purchasing of goods or using services in an electronic form or to undertake duties as an agent or mediate the settlement of prices thereof), we are registered with the FSC in accordance with the Electronic Financial Transactions Act (the "EFTA") and are subject to such Act.

The FSS monitors electronic financial business operators' compliance with the EFTA or the administrative orders issued pursuant to the EFTA. If the FSS believes that an electronic financial business operator will likely violate the EFTA or the aforementioned administrative orders, the FSS may take any one of the following measures: an order for the remedying of the violation, a warning, a warning to an executive and/or an employee, an order for the reprimanding of an executive and/or an employee or a request for removal of an executive or suspension of duty.

Regulations Governing Music Related Businesses

Among other applicable laws, online music services and related businesses are governed by the Copyright Act and the Music Industry Promotion Act, which were enacted to promote music related businesses and to protect the rights of the music writers.

The Copyright Act was recently amended to enforce the Korea-EU and Korea-U.S. free trade agreements in Korea. Major changes include: (i) increasing the protection of a music writer's property rights to 70 years (previously 50 years) after the death of the music writer; (ii) increasing the protection of neighboring rights (pertaining to musical performance and music recordings) to 70 years (previously 50 years) effective from August 1, 2013, while any neighboring rights acquired during the period between July 1, 1987 and June 30, 1994 will be protected for 50 years; and (iii) the introduction of a legal remedy for the claim of damages. Such amendments are anticipated to enhance the protection of music-related copyrights in Korea and to further contribute to the growth of the online music service industry in general.

The Music Industry Promotion Act was enacted in 2006 to replace the previously repealed Act on Music Record/Video and Game Materials. The Act provides a legal framework and guidelines for digital music sources and development of relevant technology, and generally encompasses protection of copyrights, promotion of the music industry, online music streaming and musical performances, among other things.

The royalties for digital music copyrights payable to music distributors and copyright holders are governed by the royalty collection regulations (the “Royalty Regulation”) approved by the Ministry of Culture, Sports and Tourism. The Royalty Regulation was amended in February 2016 to promote the copyright holders’ rights, and in particular, raise the profit distribution ratio for copyright holders, prohibit unreasonable discounts and raise applicable royalty rates. As a result, all online music service providers in Korea recently raised their subscription fees to accommodate such changes in the Royalty Regulation.

Since the purpose of the Royalty Regulation is to protect the copyright holders’ rights, the Royalty Regulation may be amended again from time to time based on discussions among interested parties and the approval of the Ministry of Culture, Sports and Tourism.

Regulations Relating to Protection of Personal Information

We are subject to the Act on Use and Protection of Credit Information, which regulates companies utilizing databases of personal credit information for its business. We are also subject to the Personal Information Protection Act, which regulates the collection, utilization and provision of personal information, and the procedure for obtaining consents on handling personal information.

In the course of our business, we acquire a large amount of personal and financial information related to our users. In addition, certain third-party vendors may provide services to us using personal and financial information of their customers. As required by the above-described laws, we take precautionary measures, including the implementation of internal compliance procedures, to prevent and detect misuse or unauthorized disclosure of users’ personal information.

Regulations under the Monopoly Regulation and Fair Trade Act

We are part of the Kakao Group and thus are subject to certain restrictions, including the following, under the Monopoly Regulation and Fair Trade Act:

- **Restrictions on debt guarantees among affiliates.** Any affiliate within the Kakao Group may not guarantee the debt of another domestic affiliate to domestic financial institutions, except for certain guarantees prescribed in the Monopoly Regulation and Fair Trade Act, such as, among others, those relating to the debt of a company acquired for purposes of industrial rationalization, bid deposits for overseas construction work and technology development funds.
- **Restrictions on cross-shareholding.** A member company of the Kakao Group may not newly acquire or hold shares in an affiliate belonging to the Kakao Group that owns shares in such member company except for certain cases prescribed by the Monopoly Regulation and Fair Trade Act, such as the acquisition of shares in the context of a merger of companies or a transfer of business and exercise of security interests. Existing cross-shareholdings are required to be publicly disclosed.
- **Public notice of board resolutions on large-scale transactions with specially-related persons.** If a member of the Kakao Group engages in certain transactions with a specially-related person in the amount of (i) 5% or more of its total capital and paid-in capital, whichever is greater, or (ii) ₩5 billion or more, the transaction must be approved by a resolution of such member’s board of directors in advance, and such member must publicly disclose the transaction.

In August 2013, the Monopoly Regulation and Fair Trade Act was amended to strengthen restrictions on transactions between certain affiliated group entities, which amendments became

effective in February 2014. In particular, the amendments explicitly provide that a company belonging to an enterprise group subject to the limitations on cross-investment among affiliates (as defined in the Monopoly Regulation and Fair Trade Act) is restricted from providing profits to its specially-related persons (including the de facto controlling person of such company or his or her respective relatives (as defined in the Korean Civil Code)) by, among other things, engaging in the following transactions with its specially-related persons or affiliated companies in which such specially-related person has an ownership interest of, in the case of listed companies, 30% or more or, in the case of non-listed companies, 20% or more:

- transactions with terms that are significantly more favorable than terms of transactions with non-affiliates;
- the company passes to such specially-related persons or affiliated companies its business opportunities that would bring substantial profits or other benefits to the company if such transactions were entered into by the company itself or another company under such company's control;
- transactions with specially-related persons in cash or involving financial instruments under terms that are significantly more favorable than arms' length terms; or
- transactions of a substantial scale with certain specially-related persons or affiliated companies, unless the company underwent an appropriate arms' length selection process of choosing its counterparty, such as the assessment of business capacity, financial status, credit ratings and quality of products or services of the counterparty as well as the terms and conditions of the transaction. Such restriction does not apply if (i) the aggregate transaction amount for goods and services between the relevant parties in that year neither exceeds ₩20 billion nor 12% of the average revenue of the counterparty or (ii) such affiliated transactions are inevitable in order to achieve certain specific purposes, such as efficiency, security or urgency for the company.

Violation of the above restrictions may subject the company to a corrective order or a fine imposed by the Fair Trade Commission up to 5% of such company's average revenue during the immediately preceding three fiscal years or, in certain cases (including where the company has no revenue), ₩2 billion.

KOREAN FOREIGN EXCHANGE AND SECURITIES REGULATIONS

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the Foreign Exchange Transaction Laws, regulate investments in Korean securities by non-residents and issuances of securities outside Korea by Korean companies. Non-residents may invest in Korean securities pursuant to the Foreign Exchange Transaction Laws. The FSC has also adopted, pursuant to its authority under the FSCMA, regulations that regulate investments by foreigners in Korean securities and issuances of securities outside Korea by Korean companies.

Subject to certain limitations, the Ministry of Strategy and Finance (the "MOSF") has the authority to take the following actions under the Foreign Exchange Transaction Laws:

- if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the MOSF may temporarily suspend payment, receipt or performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell precious metal or any means of payment to the BOK, a foreign exchange equalization fund, certain other governmental agencies or financial companies; and
- if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries creates or is likely to create serious obstacles in carrying out its currency policies, exchange rate policies or other macroeconomic policies, the MOSF may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with the BOK, a foreign exchange equalization fund or financial companies.

The aforementioned authority of the MOSF would not, however, be applicable to foreign investments made pursuant to the Foreign Investment Promotion Act of Korea.

Government Review of Issuance of the Bonds

In order for us to issue the Bonds in excess of US\$30 million, we are required to file a report with the MOSF with respect to the issuance of the Bonds prior to and after such issuance; provided that such US\$30 million threshold amount would be reduced by the aggregate principal amount of any foreign currency loans borrowed, and any securities offered and issued, outside Korea during the one-year period immediately preceding the report's submission date. The MOSF may at its discretion direct us to take necessary measures to avoid exchange rate fluctuation in connection with its acceptance of report of the issuance of the Bonds. No further Korean governmental approval is necessary for the initial offering and issuance of the Bonds. No further governmental approval is necessary for the exchange of the Bonds into the Shares and the delivery of the Shares inside Korea, provided that a non-Korean who intends to acquire the Shares must obtain an investment registration card from the FSS as described below. Upon acquisition of the Shares by a non-Korean, such non-Korean or his standing proxy in Korea must immediately report such acquisition to the governor of the FSS.

Reporting Requirements for Holders of Substantial Interests

Under the FSCMA, any person whose direct or beneficial ownership of a listed company's shares with voting rights, equity-related debt securities including convertible bonds, bonds with warrants, exchangeable bonds, certificates representing the rights to subscribe for common shares, derivatives-linked securities and depositary receipts for the aforementioned securities, which we refer to collectively as equity securities, together with the equity securities directly or beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding equity securities of such listed company is required to report the status and purpose (in terms of whether the purpose of the shareholding is to participate in the management of the issuer) of the holdings, the major terms and conditions of the agreements relating to the equity securities and other matters prescribed by the Presidential Decree under the FSCMA to the FSC and the Korea Exchange within five business days after reaching the 5% ownership interest.

In addition, (A) any change in the number of the owned equity securities that is 1% or more of the total outstanding equity securities or (B) any change in (i) the purpose of the shareholding or in the ownership of the equity securities, (ii) the major terms and conditions of the agreements relating to the equity securities owned (such as trust agreements and collateral agreements) to the extent the number of relevant equity securities is 1% or more of the total outstanding equity securities or (iii) the type of the ownership (direct ownership or holdings) to the extent the number of relevant equity securities is equal to or exceeds 1% of the total outstanding equity securities, subsequent to the report, must be reported to the FSC and the Korea Exchange, provided that clauses (ii) and (iii) are only applicable to shareholders whose investment purpose is to participate in the management of the company. Changes set forth in clauses (A) and (B) above must be reported within five business days from the date of such change (or by the tenth day of the month following the month in which the change described in (A) above occurs, in the case of a person (other than certain professional investors prescribed by the Presidential Decree under the FSCMA) with no intent to seek management control). Notwithstanding the foregoing, certain professional investors prescribed by the Presidential Decree under the FSCMA may report the 5% ownership status and the changes described in (A) above to the FSC and the Korea Exchange by the tenth day of the month immediately following the end of the quarter in which such 5% ownership interest is reached or the change occurs.

When filing a report to the FSC and the Korea Exchange in accordance with the reporting requirements described above, a copy of such report must also be sent to the relevant listed company.

Violation of these reporting requirements may subject a person to sanctions such as prohibition on the exercise of voting rights with respect to the equity securities for which the reporting requirement was violated, or fines and/or imprisonment. Furthermore, the FSC may order the disposal of the equity securities for which the reporting requirement was violated or may impose a monetary penalty.

A person reporting to the FSC and the Korea Exchange that his purpose of holding the equity securities is to participate in the management of the listed company is prohibited from acquiring additional equity securities of the listed company and exercising voting rights during the period commencing from the date on which the event triggering the reporting requirement occurs and ending on the fifth day from the date on which the report is made.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of (a) equity securities issued by LOEN (excluding debt securities other than equity-related debt securities); (b) depositary receipts related to securities described in (a); (c) exchangeable bonds issued by any person other than us, which are exchangeable into the securities described in (a) or (b); or (d) financial investment products, the underlying asset of which are composed of securities described (a) through (c), accounts for 10% or more of the total issued and

outstanding voting stock, whom we refer to as a major shareholder, must file a report to the Securities and Futures Commission of Korea and to the Korea Exchange within five business days after the date on which the person reached such shareholding limit. In addition, such person must file a report to the Securities and Futures Commission of Korea and to the Korea Exchange regarding any subsequent change in his/her shareholding. Such report on subsequent change in shareholding must be filed within five business days of the occurrence of any such change. Violation of these reporting requirements may subject a person to criminal sanctions such as fines and/or imprisonment.

Restrictions Applicable to Common Shares

As a result of amendments to the Foreign Exchange Transaction Laws and FSC regulations adopted in connection with the stock market opening from January 1992, which we refer to collectively as the Investment Rules, foreigners may invest, with limited exceptions and subject to certain procedural requirements, in shares of all Korean companies listed on the KRX KOSPI Market or the KRX KOSDAQ Market unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including:

- odd lot trading of shares;
- acquisition of shares, which we refer to as converted shares, by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded;
- shares acquired by way of a foreign direct investment under the Foreign Investment Promotion Act of Korea and/or the disposal of such shares by the investor;
- the disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;
- the acquisition or disposal of shares in connection with a tender offer;
- the acquisition of shares by a foreign depositary in connection with the issuance of depositary receipts;
- the acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and
- arm's length transactions between foreigners, if all of such foreigners belong to the investment group managed by the same person.

For over-the-counter transactions of shares between foreigners outside the KRX KOSPI Market or the KRX KOSDAQ Market for shares with respect to which the limit on aggregate foreign

ownership has been reached or exceeded, an investment broker licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve an investment dealer licensed in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions by borrowing shares from investment brokers or investment dealers with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in or dispose of shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including shares being issued or sold for initial listing on the KRX KOSPI Market or the KRX KOSDAQ Market) to register its identity with the FSS prior to making any such investment or disposal unless it has previously registered. However, the registration requirement does not apply to foreign investors who (i) acquire shares by exercising rights attached to securities offered by Korean companies outside Korea (including upon exercise of conversion rights of convertible bonds, bonds with warrants, exchangeable bonds, depositary receipts, distribution depositary securities and any other similar securities or certificates) with the intention of selling such converted shares within three months from the date of acquisition of the converted shares or (ii) acquire or dispose of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in connection with a foreign direct investment under the Foreign Investment Promotion Act of Korea. Upon registration, the FSS will issue to the foreign investor an investment registration certificate which must be presented each time the foreign investor opens a dealing account or a brokerage account with an investment dealer or an investment broker licensed in Korea. Foreigners eligible to obtain an investment registration certificate include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by a decree promulgated under the FSCMA. The offices of a foreign corporation in Korea are not subject to investment registration and are treated as a Korean national separately from the offices of the corporation outside Korea for the purpose of investment registration. A foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration certificates in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the KRX KOSPI Market or the KRX KOSDAQ Market, no separate report by the investor is required because the investment registration certificate system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the FSS at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the FSS by the investment dealer or investment broker engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), investment dealers, investment brokers and collective investment companies ("financial investment firms") (including domestic branches of foreign financial investment firms) and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities itself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to its shares or perform any tasks related thereto on its behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the FSS in cases deemed inevitable by reason of conflict between the laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment firms (including domestic branches of foreign financial investment firms), the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a foreign investor; provided, however, that a foreign investor may have the certificate evidencing shares released from such custody when it is necessary to exercise its rights to such shares or to inspect and confirm the presence of the certificate(s) of such shares. The custodian of a foreign investor must deposit such foreign investor's shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the FSS in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may own shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, no person may hold for its own account shares issued by a designated public service corporation in excess of the following ceilings, regardless of the title thereof: (i) in the case of a person holding not less than 10% of the total number of outstanding stocks at the time of the listing, such person's shareholding level at such time shall be the ceiling; and (ii) for all other shareholders, the ceiling shall be as prescribed in the articles of incorporation of such public service corporation, but in no circumstance over 3% of the total outstanding shares of the designated public service corporation. When determining total number of outstanding shares, shares without voting rights are not counted, and the shares held under the name of a person specially-related to a shareholder are deemed to be held for such shareholder's own account. Furthermore, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling; provided, however, that designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate and the designated public service corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public service corporation which has set a ceiling on the acquisition of shares by a single person (except the Government and employee stock ownership association of Korea Electric Power Corporation) regardless of its nationality within 3% of the total number of shares by its articles of incorporation, although it has no ceiling specifically set for foreign shareholders.

Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company, the amount of which is ₩100 million or more, is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the foreign exchange bank or Korea Trade-Investment Promotion Agency designated by the Ministry of Trade, Industry and Energy prior to such investment (within 30 days from the date of such investment, if the investment is made by acquiring outstanding shares of a Korean company listed on the Korea Exchange). The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who wishes to trade shares without obtaining separate governmental approvals or submitting separate reports to the Government must designate a foreign exchange bank and open a foreign currency account and a Korean Won account with the bank exclusively for stock investments. No approval is required for remittance of foreign currency funds into Korea or for deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account to a Korean Won account opened with an investment dealer or an investment broker at the time the foreign investor

is required to place a deposit for, or settle the purchase price of, a stock purchase transaction to an investment dealer or investment broker's Korean Won account. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on shares of Korean companies are paid in Korean Won. No governmental approval is required for foreign investors to receive dividends on, or the Korean Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Korean Won proceeds of the sale of, any shares held by a non-resident of Korea may be deposited either in a Korean Won account with the investor's investment dealer or investment broker or his Korean Won account. Funds in the investor's Korean Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses in excess of a certain amount must be reported to the governor of the FSS by the foreign exchange bank at which the Korean Won account is maintained. Funds in the Korean Won account in Korea may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Investment dealers and investment brokers are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, investment dealers and investment brokers may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Korean Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

KOREAN SECURITIES MARKET

The Korea Exchange

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. On July 2, 2013, the Korea Exchange launched the Korea New Exchange (KONEX, a new securities exchange market that focuses on small- and medium-sized enterprises). There are four different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, the KONEX Market and the KRX Derivatives Market. The Korea Exchange has three trading floors located in Seoul, one for the KRX KOSPI Market, one for the KRX KOSDAQ Market and one for the KONEX Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

According to data published by the Korea Exchange, as of May 4, 2016, the aggregate market value of equity securities listed on the KRX KOSDAQ Market was approximately ₩211 trillion, and the average daily trading volume of equity securities for 2015 was approximately 604 million shares with an average transaction value of ₩3,523 billion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the KOSDAQ Index on a real-time basis, which is an index of all equity securities listed on the Korea Exchange. To calculate the KOSDAQ Index, the market capitalizations of all listed companies on the KRX KOSDAQ Market are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, July 1, 1996.

Movements in KOSDAQ are set out in the following table:

	<u>Opening</u>	<u>High</u>	<u>Low</u>	<u>Closing</u>
2000	2,660.00	2,834.40	525.80	525.80
2001	557.00	876.50	460.50	722.10
2002	744.70	943.00	436.70	443.60
2003	466.00	535.00	346.40	448.70
2004	451.40	491.53	324.71	380.33
2005	390.40	747.96	390.40	701.79
2006	720.07	754.97	539.10	606.15
2007	608.72	828.22	571.04	704.23
2008	707.12	719.25	261.19	322.05
2009	339.76	562.57	339.76	513.57
2010	528.09	553.10	449.96	510.69
2011	518.05	544.39	409.55	500.18
2012	506.79	544.20	448.68	496.32
2013	501.61	585.76	480.96	499.99
2014	496.28	581.38	496.28	542.97
2015	553.73	782.64	553.73	682.35
2016 (through May 4)	677.79	703.70	608.45	694.17

Source: The Korea Exchange

Shares are quoted “ex-dividend” on the first trading day of the relevant company’s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSDAQ between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted “ex-dividend” and “ex-rights,” permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 30% of the previous day’s closing price of the shares, rounded down as set out below:

<u>Previous Day’s Closing Price (Won)</u>	<u>Rounded Down to (In Won)</u>
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 or more	100

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the investment brokers and the investment dealers. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See “Taxation — Korean Taxation Relating to the Shares.”

The number of companies listed on the KRX KOSDAQ Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Number of Listed Companies	Total Market Capitalization (billions of Won)	Average Daily Trading Volume (thousands of shares)	Average Daily Trading Volume (millions of Won)
2000	604	₩ 29,016	211,827	₩ 2,400,374
2001	721	51,818	383,712	1,728,372
2002	843	37,403	320,418	1,205,294
2003	879	37,375	408,238	1,078,475
2004	890	31,149	286,912	625,286
2005	918	70,898	597,952	1,792,682
2006	963	72,137	542,715	1,730,789
2007	1,023	99,980	614,846	2,035,560
2008	1,038	46,186	505,904	1,245,882
2009	1,028	86,103	777,753	2,098,659
2010	1,029	97,972	643,041	1,924,666
2011	1,031	105,994	543,407	2,250,028
2012	1,005	109,122	590,636	2,129,146
2013	1,009	119,293	395,105	1,823,356
2014	1,061	143,088	354,538	1,970,330
2015	1,152	201,631	604,455	3,523,316
2016 (through May 4)	1,164	210,963	613,779	3,316,016

Source: The Korea Exchange

The Korean securities markets are principally regulated by the FSC and under the regulations set forth in the FSCMA. In July 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, which came into effect on February 4, 2009, comprehensively regulates the Korean capital markets, the financial investment business (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes, among others, restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

Protection of Customer's Interest in Case of Insolvency of Investment Brokers or Investment Dealers

Under Korean law, the relationship between a customer and an investment broker or an investment dealer in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the investment broker or the investment dealer) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving an investment broker or an investment dealer, the customer of the investment broker or the investment dealer is entitled to the proceeds of the securities sold by the investment broker or the investment dealer.

When a customer places a sell order with an investment broker or an investment dealer that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and this investment broker or investment dealer places a sell order with another investment broker or investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted against the investment broker or the investment dealer and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors up to ₩50 million of cash deposited with an investment broker or an investment dealer in case of the investment broker or the investment dealer's bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events. Pursuant to the FSCMA, as amended, investment brokers or investment dealers are required to deposit the cash received from its customers at the Korea Securities Finance Corporation, a special entity established pursuant to the FSCMA. Set-off or attachment of cash deposits by investment brokers or investment dealers is prohibited. The premiums related to this insurance are paid by investment brokers or investment dealers.

Clearance and Settlement

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades.

The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository around 6 p.m. on the business day immediately prior to the settlement date. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to an account at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third day following the day of the sale and purchase contract.

TAXATION

The following is a summary of the principal Korean tax consequences to owners of the Bonds or the Shares, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected (“Non-resident Holders”). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to consult their own tax advisers as to the tax consequences of the acquisition, ownership and disposition of the Bonds or the Shares, including the effect of any national, state or local tax laws.

Korean Taxation Relating to the Bonds

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations (“Non-Residents”) depends on whether they have a “permanent establishment” (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

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 Bonds to other Non-Residents (other than to their permanent establishments in Korea) under the Corporation Tax Law (the “CTL”).

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable tax treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain direct transaction costs of the relevant Bond) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of the Bonds issued by Korean companies. The purchaser or any other designated withholding agent of the Bonds is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through

proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

In order to obtain an exemption or reduction of withholding tax under an applicable tax treaty with respect to any income to which a Korean withholding tax applies, a Non-Resident should submit either an application for tax exemption or an application for entitlement to a reduced tax rate to either the payer or the entity obligated to withhold such tax prior to the date upon which such income is to be paid to the Non-Resident.

Share Exchange

The tax liability in connection with the Bonds and the capital gains resulting from the exchange of the Bonds into the Shares is not clear.

Upon the exchange of the Bonds into the Shares, if the relevant payment is made by cash, then it is likely to trigger a taxable event for Korean income tax purpose, and the gain from the exchange will be subject to Korean withholding tax on the income tax and/or corporation tax. However, it is not clear whether the gain from the exchange will be treated as interest income, capital gains, or "other income" and how the amount subject to such tax would be calculated. If treated as capital gains, the gain from the exchange may be exempt from Korean taxation under an applicable Korean tax treaty or by virtue of the CTL as discussed above. However, if treated as interest income or "other income", the gain from the exchange will be subject to the Korean withholding tax at the rate of 15.4% or 22.0% (including local income tax), respectively, unless reduced or exempt under an applicable Korean tax treaty.

Withholding and Gross Up under the Guarantee

All payments, other than the payment of the principal amount, under the Guarantee by the Guarantor to a Non-Resident holder of the Bonds may be subject to Korean withholding tax at the rate of 15.4% (including local income surtax), unless reduced or exempt under an applicable Korean tax treaty.

Korean Taxation Relating to the Shares

Tax on Dividends

Dividends on the Shares paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding tax at the rate of 22% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder's country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payer of the dividend. In order to obtain an exemption or reduction of withholding tax pursuant to an applicable tax treaty, a Non-resident Holder must submit to us, prior to the dividend payment date, either an application for tax exemption or an application for entitlement to a reduced tax rate.

Tax on Capital Gains

As a general rule, capital gains earned by Non-resident Holders upon transfer of the Shares are subject to Korean withholding tax at the lower of (i) 11% (including local income tax) of the gross proceeds realized or (ii) 22% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder's country of tax residence.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the Shares through the Korea Exchange if the Non-resident Holder (i) has no permanent establishment in Korea and (ii) did not or has not owned (together with any shares owned by any entity with certain special relationships with such Non-resident Holder) 25% or more of LOEN's total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

Korean 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 his death and (b) all property located in Korea that 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 rate varies from 10% to 50% depending on the value of the relevant property and the nature of the relationship between the parties.

Under Korean inheritance and gift tax laws, bonds and other securities issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Bonds or the Shares by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Korean Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Non-resident Holders in connection with the issue of the Bonds except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by us.

No securities transaction tax will be imposed upon the transfer of the Bonds.

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSDAQ Market (such as the Shares), the securities transaction tax is imposed generally at the rate of (i) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSDAQ Market or (ii) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSDAQ Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (i) the shares are listed on a designated foreign stock exchange and (ii) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (i) between 10% to 40% of the tax amount due, depending on the nature of the improper reporting, and (ii) 10.95% per annum on the tax amount due for the default period.

Tax Treaties

At the date of this offering circular, Korea has tax treaties with, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Malaysia, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 10% and 16.5% (including local income tax), and the tax on capital gains is often eliminated.

Each Non-resident Holder of the Bonds or the Shares should inquire whether it is entitled to the benefit of a tax treaty with respect to any transaction involving the Bonds or the Shares. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments and other transactions to file with the payer or us a certificate as to his residence. In the absence of sufficient proof, the payer or we must withhold taxes in accordance with the above discussion.

In order for a Non-Resident to obtain the benefit of a tax exemption on certain Korean source income, such as capital gains, under an applicable tax treaty, Korean tax law requires such Non-Resident (or its agents) to submit to the payer of such Korean source income an application for tax exemption under Korean tax law along with a certificate of tax residency of such Non-Resident issued by a competent authority of the Non-Resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income. If the Korean source income is paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for tax exemption from each of its Non Resident beneficial owners seeking a tax exemption under an applicable tax treaty and submit to the payer of such Korean source income a report of overseas investment vehicle, together with the applications for tax exemption prepared by the Non-Resident beneficial owners and a schedule of Non-Resident beneficial owners. However, this requirement does not apply to exemptions under Korean tax law.

Further, for a Non-Resident to obtain the benefit of a tax reduction on certain Korean source income, such as interest and dividends, under an applicable tax treaty, Korean tax law generally requires such Non-Resident (or its agents) to submit to the payer of such Korean source income an application for entitlement to a reduced tax rate prior to the Non-Resident's receipt of such Korean source income. If the Korean source income is paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for entitlement to a reduced tax rate from each of its Non Resident beneficial owners seeking a tax reduction under an applicable tax treaty and submit to the payer of such Korean source income a report of overseas investment vehicle, together with the applications for entitlement to a reduced tax rate prepared by the Non-Resident beneficial owners and a schedule of Non-Resident beneficial owners. An application for entitlement to a reduced tax rate submitted by a Non-Resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted. However, this requirement does not apply to exemptions under Korean tax law.

Withholding and Gross Up

In the event that the payer or we are required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in "Terms and Conditions of the Bonds — Taxation") we have agreed to pay (subject to the customary exceptions as set out in "Terms and Conditions of the Bonds — Taxation") such Additional Amounts as may be necessary in order that the net amounts received by the Holder of any Bond after such withholding or deduction shall equal the respective amounts which would have been received by such Holder in the absence of such withholding or deduction.

United Kingdom Provision of Information Requirements

The comments below are of a general nature and are based on current United Kingdom (“UK”) tax law as applied in England and published practice of HM Revenue & Customs (“HMRC”), the UK tax authorities. Such law may be repealed, revoked or modified and such practice may not bind HMRC and/or may change (in each case, possibly with retrospective effect), resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in connection with the Bonds. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Bonds or Shares. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

Information relating to the Bonds may be required to be provided to HMRC in certain circumstances pursuant to certain domestic and international reporting and transparency regimes. This may include (but is not limited to) information relating to the value of the Bonds, amounts paid or credited with respect to the Bonds, details of the holders or the beneficial owners of the Bonds (or the persons for whom the Bonds are held), details of the persons who exercise control over entities that are, or are treated as, holders of the Bonds, details of the persons to whom payments derived from the Bonds are or may be paid and information and documents in connection with transactions relating to the Bonds. Information may be required to be provided by, amongst others, the Issuer, the holders of the Bonds, persons by or through whom payments derived from the Bonds are made or credited or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Bonds on behalf of others and certain registrars or administrators. Accordingly, in order to enable these requirements to be met, holders of the Bonds may be required to provide information to the Issuer or to other persons. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

The Proposed European Financial Transactions Tax

The European Commission has published a proposal (the “Commission’s Proposal”) for a Directive for a common financial transactions tax (“FTT”) in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the “participating Member States”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Bonds or Shares 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 Bonds or Shares 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.

The FTT remains subject to negotiation between 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 Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

We and the Guarantor have entered into a subscription agreement dated April 25, 2016 (the “Subscription Agreement”) with the managers named below (the “Managers”), pursuant to which we have agreed to sell to the Managers, and the Managers have severally and not jointly agreed to subscribe and pay for, or procure subscribers to subscribe and pay for, the Bonds in such principal amounts as are listed opposite their respective names below, at an issue price of 100% of the principal amount of the Bonds less a combined management and underwriting commission and selling concession as agreed between the Managers and us.

Manager	Principal Amount
	<i>(in Won)</i>
Citigroup Global Markets Limited	₩115,000,000,000
Morgan Stanley & Co. International plc	115,000,000,000
Total	₩230,000,000,000

The Subscription Agreement provides that the obligation of the Managers to subscribe and pay for the Bonds is subject to approval of certain legal matters by counsel and to certain other conditions. The Subscription Agreement may be terminated in certain circumstances prior to payment being made by us. The Subscription Agreement also provides that if a Manager defaults, the purchase commitment of the non-defaulting Manager may be increased or this offering may be terminated.

We and the Guarantor have agreed to indemnify the Managers against certain liabilities.

The Bonds 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 Bonds on the SGX-ST. However, no assurance can be given as to the liquidity of the trading market for the Bonds.

In connection with the offering of the Bonds, the Managers or any of their respective affiliates may purchase the Bonds for its own account and enter into transactions, including (i) credit derivatives (including convertible asset swaps, repackaging transactions and credit default swaps) relating to the Bonds and/or our securities, and (ii) equity derivatives and stock loan transactions relating to the Shares. Such transactions may occur either at the same time as the offer and sale of the Bonds, or in secondary market transactions. Such transactions would be carried out as bilateral transactions with selected counter-parties and separately from any existing sale or resale of the Bonds to which this offering circular relates (notwithstanding that such selected counter-parties may also be purchasers of the Bonds).

We have entered into the Securities Lending Agreements with each of the Managers under which we will loan to the Managers up to an aggregate of 2,191,885 Shares from time to time. The purpose of the Securities Lending Agreements is to facilitate on-lending transactions with investors in the Bonds, who may use such Shares to establish their hedge positions in respect of the Bonds. Under the Securities Lending Agreements, we have the right to terminate the loans (i) upon the earliest of (x) the fifth anniversary of the Closing Date, (y) the date on which the Bonds have been redeemed in full and (z) the date on which the Bonds have been exchanged in full for the Shares, or (ii) when we cease to have a majority voting right with respect to the Shares as a result of the securities lending transactions or the delivery of such Shares upon exchange of the Bonds, to the extent necessary to keep our majority voting right with respect to the Shares.

Investors who purchase the Bonds from the Managers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this offering circular.

The Managers and their respective affiliates may have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us, our affiliates, the Guarantor and its affiliates in the ordinary course of business, for which they received or will receive customary fees and agreed expenses.

Lock-up

We have agreed with the Managers that we (or any person acting on our behalf) will not (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe for or purchase any interest in, or any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase, the Shares or securities of the same class as the Shares or other instruments representing interests in the Shares or other securities of the same class as them (collectively, the "Securities"), (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, whether any such transaction of the kind described in (a) or (b) is to be settled by delivery of the Shares or other securities, in cash or otherwise or (c) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Managers, between the date of the Subscription Agreement and the date which is 90 days after the Closing Date, except for (i) the Shares delivered on exchange of the Bonds, (ii) any claims, charges, mortgages, security, liens, encumbrances or defects on the Shares and our right to receive the underlying Shares upon redemption of the Bonds, created for the benefit of the Guarantor as consideration for providing the Guarantee, (iii) any offer, sale and pledge of, contract to sell or other disposal of, any Securities to any of our subsidiaries or affiliates, so long as the subsidiary or affiliate agrees in writing to be bound by the restrictions on the Securities for the remainder of the 90 day period in the same manner as set out above and (iv) any public announcement of an intention to effect any transaction described in (i) through (iii) above.

In addition, LOEN has agreed with the Managers that it will not, without the prior written consent of the Managers, (a) issue, offer, sell, pledge, contract to sell or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe for or purchase any interest in, or any securities convertible into, exchangeable for or which carry rights to subscribe for or purchase, the Securities, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, whether any such transaction of the kind described in (a) or (b) is to be settled by delivery of the Shares or other securities, in cash or otherwise or (c) announce or otherwise make public an intention to do any of the foregoing, for a period of 90 days after the Closing Date, except for (i) any grant or issue of stock options to any officers, directors or employees as part of their compensation, so long as such options are exercised after the expiry of such 90 day period, (ii) any offer, sale, or contract to sell any Securities to any of its subsidiaries or affiliates, so long as the subsidiary or affiliate agrees in writing to be bound by the restrictions on the Securities for the remainder of such 90 day period in the same manner as set out above and (iii) any public announcement of an intention to effect any transaction described in (i) or (ii) above.

Selling Restrictions

United States

The Bonds 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 Manager represents and agrees that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D), 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 Bonds.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this offering circular to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the any Manager, the Guarantor or us to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds” to the public in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Manager 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 any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds 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 Bonds in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented, warranted and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) 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 Bonds, 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 Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Manager acknowledges 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, such Manager represents, warrants and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds 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 such Bonds, 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 Bonds 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 6 months after that corporation or that trust has acquired the Bonds 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

The Bonds and the Shares to be delivered upon exchange of the Bonds have not been and will not be registered under the Financial Investment Services and Capital Markets Act. Each Manager represents and agrees that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, any Bonds in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Law of Korea), except as otherwise permitted under applicable Korean laws and regulations. Furthermore, each Manager is aware that a holder of any Bonds will be prohibited from offering, selling or delivering any Bonds, directly or indirectly, in Korea or to any resident of Korea (as such term is defined in the Foreign Exchange Transaction Law of Korea) for a period of one (1) year from the date of issuance of the Bonds, except as otherwise permitted by applicable Korean laws and regulations; provided that any investor to which any Manager sells the Bonds confirms that it is purchasing such Bonds as principal and agrees that it will comply with the restrictions described above. Each Manager further represents that it will take commercially reasonable best measures as underwriter in the ordinary course of its business to prevent any Bonds from being offered, sold or delivered to any resident of Korea within one (1) year from the issuance of the Bonds.

Japan

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"), and the Bonds which each Manager subscribes will be subscribed by it as principal. In connection with the initial offering of the Bonds, each Manager will not, directly or indirectly, offer or sell any Bonds in Japan, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

General

None of us, the Guarantor or the Managers makes any representation that any action will be taken in any jurisdiction by any Managers, the Guarantor or us that would permit a public offering of the Bonds, or possession or distribution of this offering circular (in preliminary proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this offering circular (in preliminary proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on us or the Guarantor in any such jurisdiction as a result of any of the foregoing actions. We and the Guarantor will have no responsibility for, and each Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. The Managers are not authorized to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in this offering circular (in final form) or any amendment or supplement to it.

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Bonds will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP as to matters of English law and Shin & Kim as to matters of Korean law, and for the Managers by Paul Hastings LLP as to matters of English law and Kim & Chang as to matters of Korean law. Certain legal matters relating to the Guarantee will be passed upon for the Guarantor by Cleary Gottlieb Steen & Hamilton LLP as to matters of English law and Kim & Chang as to matters of Korean law. Cleary Gottlieb Steen & Hamilton LLP may rely as to all matters of Korean law on the opinion of Shin & Kim with respect to the issue and sale of the Bonds and on the opinion of Kim & Chang with respect to the Guarantee, and Paul Hastings LLP may rely as to all matters of Korean law on the opinion of Kim & Chang. Shin & Kim may rely as to all matters of English law on the opinion of Cleary Gottlieb Steen & Hamilton LLP, and Kim & Chang may rely as to all matters of English law on the opinion of Cleary Gottlieb Steen & Hamilton LLP with respect to the Guarantee and on the opinion of Paul Hastings LLP with respect to the issue and sale of the Bonds.

INDEPENDENT ACCOUNTANTS

The Guarantor's consolidated financial statements as of and for the years ended December 31, 2015 and 2014 and as of and for the years ended December 31, 2014 and 2013, our consolidated financial statements as of and for the years ended December 31, 2015 and 2014 and LOEN's consolidated financial statements as of and for the years ended December 31, 2015 and 2014 included in this offering circular have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their reports appearing herein.

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Independent Auditor's Report

(English Translation of a Report Originally Issued in the Korean)

To the Shareholder and Board of Directors of
Kookmin Bank

We have audited the accompanying consolidated financial statements of Kookmin Bank and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
March 9, 2016

The report is effective as of March 9, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2015 and 2014

(In millions of Korean won)

	Notes	2015	2014
Assets			
Cash and due from financial institutions	4,6,7,36	₩ 14,562,990	₩ 13,973,510
Financial assets at fair value through profit or loss	4,6,8,12	6,487,617	7,520,471
Derivative financial assets	4,6,9	2,186,010	1,910,217
Loans	4,6,8,10,11	222,738,064	211,525,560
Financial investments	4,6,8,12	32,911,986	29,258,527
Investments in associates	13	670,139	667,332
Property and equipment	14	2,909,372	2,888,194
Investment property	14	413,179	409,266
Intangible assets	15	181,599	206,895
Current income tax assets	32	18,325	305,831
Deferred income tax assets	16,32	8,321	5,314
Assets held for sale	18	33,795	54,034
Other assets	4,6,17	7,156,510	6,728,513
Total assets		₩ 290,277,907	₩ 275,453,664
Liabilities			
Financial liabilities at fair value through profit or loss	4,6	₩ 69,465	₩ 51,650
Derivative financial liabilities	4,6,9	2,138,723	1,759,099
Deposits	4,6,19	224,333,507	211,611,432
Debts	4,6,20	14,291,815	14,297,460
Debentures	4,6,21	15,949,134	15,250,464
Provisions	22	450,398	483,375
Net defined benefit liabilities	23	55,669	57,493
Current income tax liabilities	32	7,121	7,585
Deferred income tax liabilities	16,32	165,273	110,358
Other liabilities	4,6,24,30	10,069,591	9,884,275
Total liabilities		267,530,696	253,513,191
Equity			
Capital stock	25	2,021,896	2,021,896
Capital surplus		5,219,704	5,219,704
Accumulated other comprehensive income	34	500,807	570,811
Retained earnings	33	15,004,804	14,128,062
(Provision of regulatory reserve for credit losses December 31, 2015 : ₩1,867,761 million December 31, 2014 : ₩1,690,979 million)			
(Amounts estimated to be appropriated(reversed) December 31, 2015 : ₩(32,646) million December 31, 2014 : ₩176,782 million)			
Equity attributable to shareholders of the parent company		22,747,211	21,940,473
Non-controlling interest equity		-	-
Total equity		22,747,211	21,940,473
Total liabilities and equity		₩ 290,277,907	₩ 275,453,664

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014

(In millions of Korean won)

	Notes	2015	2014
Interest income		₩ 8,388,382	₩ 9,702,627
Interest expense		(3,676,635)	(4,731,181)
Net interest income	26	<u>4,711,747</u>	<u>4,971,446</u>
Fee and commission income		1,372,054	1,271,338
Fee and commission expense		(215,681)	(193,293)
Net fee and commission income	27	<u>1,156,373</u>	<u>1,078,045</u>
Net gains on financial assets/liabilities at fair value through profit or loss	28	<u>287,028</u>	<u>356,291</u>
Net other operating expenses	29	<u>(421,726)</u>	<u>(768,551)</u>
General and administrative expenses	14,15,23,30	<u>(3,811,821)</u>	<u>(3,372,858)</u>
Operating profit before provision for credit losses		<u>1,921,601</u>	<u>2,264,373</u>
Provision for credit losses	11,17,22	(741,620)	(887,654)
Operating profit		<u>1,179,981</u>	<u>1,376,719</u>
Share of profit of associates	13	7,812	17,555
Net other non-operating income (expenses)	31	193,436	(33,999)
Net non-operating profit (loss)		<u>201,248</u>	<u>(16,444)</u>
Profit before income tax expense		<u>1,381,229</u>	<u>1,360,275</u>
Income tax expense	32	(273,991)	(331,234)
Profit for the year		<u>1,107,238</u>	<u>1,029,041</u>
(Adjusted profit after provision of regulatory reserve for credit losses 2015 : ₩1,139,884 million 2014 : ₩852,259 million)	25		
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		(14,494)	(83,603)
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments		45,142	17,281
Valuation gains (losses) on financial investments		(77,712)	222,309
Share of other comprehensive income (loss) of associates		2,536	(32,795)
Loss on hedging instruments of net investments in foreign operations		(25,476)	-
Other comprehensive income for the year, net of tax	34	<u>(70,004)</u>	<u>123,192</u>
Total comprehensive income for the year		<u>₩ 1,037,234</u>	<u>₩ 1,152,233</u>
Profit attributable to:			
Shareholders of the parent company		1,107,238	1,029,041
Non-controlling interests		-	-
		<u>₩ 1,107,238</u>	<u>₩ 1,029,041</u>
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		1,037,234	1,152,233
Non-controlling interests		-	-
		<u>₩ 1,037,234</u>	<u>₩ 1,152,233</u>

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2015 and 2014

	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
<i>(In millions of Korean won)</i>						
Balance at January 1, 2014	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Comprehensive income for the year						
Profit for the year	-	-	-	1,029,041	-	1,029,041
Remeasurements of net defined benefit liabilities	-	-	(83,603)	-	-	(83,603)
Currency translation adjustments	-	-	17,281	-	-	17,281
Gains on valuation of financial investments	-	-	222,309	-	-	222,309
Losses on valuation of investments accounted for using the equity method	-	-	(32,795)	-	-	(32,795)
Total comprehensive income for the year	-	-	123,192	1,029,041	-	1,152,233
Transactions with shareholders						
Dividends	-	-	-	(158,517)	-	(158,517)
Total transactions with shareholders	-	-	-	(158,517)	-	(158,517)
Balance at December 31, 2014	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473
Balance at January 1, 2015	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473
Comprehensive income for the year						
Profit for the year	-	-	-	1,107,238	-	1,107,238
Remeasurements of net defined benefit liabilities	-	-	(14,494)	-	-	(14,494)
Currency translation adjustments	-	-	45,142	-	-	45,142
Losses on valuation of financial investments	-	-	(77,712)	-	-	(77,712)
Gains on valuation of investments accounted for using the equity method	-	-	2,536	-	-	2,536
Losses on hedging instruments of net investments in foreign operations	-	-	(25,476)	-	-	(25,476)
Total comprehensive income for the year	-	-	(70,004)	1,107,238	-	1,037,234
Transactions with shareholders						
Dividends	-	-	-	(230,496)	-	(230,496)
Total transactions with shareholders	-	-	-	(230,496)	-	(230,496)
Balance at December 31, 2015	₩ 2,021,896	₩ 5,219,704	₩ 500,807	₩ 15,004,804	₩ -	₩ 22,747,211

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014

(In millions of Korean won)

	Notes	2015	2014
Cash flows from operating activities			
Profit for the year		₩ 1,107,238	₩ 1,029,041
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss		(24,656)	(83,607)
Losses on derivative financial investments for hedging purposes		39,381	28,269
Adjustment of fair value of derivative financial instruments		1,771	(2,040)
Provision for credit losses		741,620	887,654
Net losses (gains) on financial investments		(179,901)	126,592
Share of profit of associates		(7,812)	(17,555)
Depreciation and amortization expense		204,467	211,599
Other net losses on property and equipment/intangible assets		7,225	15,460
Share-based payment		11,915	7,234
Post-employment benefits		164,173	148,163
Net interest income		430,411	279,695
Losses on foreign currency translation		250,568	116,042
Other expense		54,409	30,011
		<u>1,693,571</u>	<u>1,747,517</u>
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		1,034,252	(426,405)
Derivative financial instrument		91,296	35,172
Loans		(12,192,923)	(9,452,956)
Deferred income tax assets		(2,553)	(4,871)
Current income tax assets		287,506	23,612
Other assets		(612,548)	123,395
Financial liabilities at fair value through profit or loss		17,742	11,441
Deposits		12,605,816	10,645,363
Deferred income tax liabilities		83,471	(67,016)
Other liabilities		(779,103)	(970,235)
		<u>532,956</u>	<u>(82,500)</u>
Net cash generated from operating activities		<u>3,333,765</u>	<u>2,694,058</u>
Cash flows from investing activities			
Disposal of financial investments		19,594,218	18,538,678
Acquisition of financial investments		(23,176,836)	(17,509,199)
Decrease in investments in associates		36,318	74,047
Acquisition of investments in associates		(27,999)	(16,216)
Disposal of property and equipment		1,764	194
Acquisition of property and equipment		(172,590)	(158,443)
Acquisition of investment property		(4,290)	(211,995)
Disposal of intangible assets		3,525	2,577
Acquisition of intangible assets		(26,203)	(18,078)
Others		97,950	(1,301,352)
		<u>(3,674,143)</u>	<u>(599,787)</u>
Net cash used in investing activities		<u>(3,674,143)</u>	<u>(599,787)</u>
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		(29,326)	(201,593)
Net increase (decrease) in debts		(177,914)	674,205
Increase in debentures		5,383,612	6,575,862
Decrease in debentures		(4,905,441)	(7,673,573)
Payment of dividends		(230,496)	(158,517)
Net increase in other payables from trust accounts		367,493	124,903
Others		4,338	(948,359)
		<u>412,266</u>	<u>(1,607,072)</u>
Net cash provided by (used in) financing activities		<u>412,266</u>	<u>(1,607,072)</u>
Exchange gains on cash and cash equivalents		<u>65,558</u>	<u>12,221</u>
Net increase in cash and cash equivalents		<u>137,446</u>	<u>499,420</u>
Cash and cash equivalents at the beginning of the year	36	6,332,060	5,832,640
Cash and cash equivalents at the end of year	36	<u>₩ 6,469,506</u>	<u>₩ 6,332,060</u>

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

1. The Bank

Kookmin Bank (the “Bank”) was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank’s status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank (“H&CB”) on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange (“KRX,” formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholders of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares (“ADS”) on the New York Stock Exchange (“NYSE”) on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank’s shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of December 31, 2015, the Bank’s paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of December 31, 2015, the Bank operates 1,138 domestic branches and offices, and five overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

The consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) have been prepared in accordance with Korean IFRS. These are the standards and related interpretations issued by the International Accounting Standards Board (“IASB”) that have been adopted by the Republic of Korea.

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with Korean IFRS. The accompanying consolidated 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 financial statements.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The Group newly applied the following new and amended standards and interpretations for the annual period beginning on January 1, 2015, and these applications do not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1019, *Employment Benefits*
- Annual improvements to Korean IFRS 2010-2012 Cycle
- Annual improvements to Korean IFRS 2011-2013 Cycle

Amendments to standards issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these standards and amendments would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1041, *Agriculture and fishing: Productive plants*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements*, and Korean IFRS 1028, *Investments in Associates and Joint Arrangements*
- Korean IFRS 1111, *Joint Arrangements*
- Annual Improvements to Korean IFRS 2012-2014 Cycle

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Also, new standards and interpretations issued but not effective for the financial year beginning January 1, 2015, and not early adopted are as follows:

- Korean IFRS 1109, *Financial Instruments*

This new standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. This amendment has been partially reflected, which is consistent with the risk management of companies for hedge accounting. The new standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of evaluating the effects resulting from the adoption of the new standard.

- Korean IFRS 1115, *Revenue from Contracts with Customers*

This new standard for the recognition of revenue issued in December 2015 will replace Korean IFRS1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related Interpretations. Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of evaluating the effects resulting from the adoption of the new Standard.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the parent company's functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management's estimates of outcomes may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment. Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

2.4.2 Fair value of financial instruments

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. Refer to Note 6 for details on valuation techniques and inputs used to determine the fair value of financial instruments.

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

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2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary's accounting policies conform to those of the Group when the subsidiary's financial statements are used by the Group in preparing the consolidated financial statements.

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and loss resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent at the Group's interest in associates. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

If associates use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'share of profit or loss of associates' in the statement of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements are recognized in profit or loss in the period in which they arise, except for exchange differences arising on net investments in a foreign operation

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and financial liability designated as a hedge of the net investment. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

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The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables, or other financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm's length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

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The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally used within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group's Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. Those factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with economic methodologies applied for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests its validity using prices of observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained

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control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirety and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039, *Financial Instruments: Recognition and measurement*.

The Group did not separate an embedded derivative from its host contract of derivative linked securities but designated the entire hybrid contract as at fair value through profit or loss.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial Investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest income measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting

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from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and receivables

Non-derivative financial assets which meet the following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

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Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a "significant decline". A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

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Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

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3.6.3 Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as 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. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge). The Group designates non-derivatives as hedging instruments to hedge the risk of foreign exchange of a net investment in a foreign operation (hedge of net investment).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

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3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Hedge of net investment

If financial liabilities qualify for a net investment hedge, the effective portion of changes in fair value of hedging instrument is recognized in other comprehensive income or loss and the ineffective portion is recognized in profit or loss. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognized in other comprehensive income will be reclassified from other comprehensive income or loss to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation in accordance with Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

3.7.4 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if, the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.5 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

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3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property and equipment 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4~5.7 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

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3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible Assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5~10 years
Software	Straight-line	4 years
Others	Straight-line	4~30 years

The amortization period and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized, because its useful life is considered to be indefinite, the Group carries out a review in each accounting

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period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group's previous accounting policy, prior to the transition to Korean IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

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3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

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Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Greenhouse Gas Emission Rights and Liabilities

The Group measured at zero the emission rights received free of charge from the government following the Enforcement of Allocation and Trading of Greenhouse Gas Emissions Allowances. Emission rights purchased are measured initially at cost and subsequently carried at their costs less any accumulated impairment losses. Emission liabilities are measured as the sum of the carrying amount of emission allowances held by the Group and best estimate of the expenditure required to settle the obligation for any excess emissions at the end of reporting period. The emission rights and liabilities are classified as 'intangible assets' and 'provisions', respectively, in the consolidated statement of financial position.

The emission rights held for trading are measured at fair value and the changes in fair value are recognized in profit or loss. The changes in fair value and gain or loss on disposal are classified as non-operating income and expenses.

3.13 Impairment of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future

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cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.14 Non-Current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For being qualified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

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3.15 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.16 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer(the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due according to the original or modified terms of a debt instrument.

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Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets, and*
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1018, *Revenue*.

3.18 Equity Instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.19 Revenue Recognition

3.19.1 Interest income and expense

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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3.19.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.19.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

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3.20 Employee Compensation and Benefits

3.20.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.20.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

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3.20.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments of KB Financial Group Inc., the ultimate parent company, at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.20.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.21 Income Tax Expenses

Income tax expense comprises current tax expense and deferred income tax expense. Current and deferred income tax are recognized as income or expense for the period, except to the extent that the tax arises from a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and a business combination.

3.21.1 Current income tax

Current income tax is the amount of income tax payable in respect of the taxable profit (loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is

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not deductible in determining taxable profit (loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to offset current income tax assets against current income tax liabilities; and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income 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 income tax liabilities or assets are expected to be settled or recovered.

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3.21.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in Korean IFRS 1012. The Income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with Korean IFRS 1037.

3.22 Transactions with the Trust Accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts (“the trust accounts”) as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group earns trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.23 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes items which are directly attributable and reasonably allocated to the segment.

4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

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The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Subcommittee

The Risk Management Committee enforces decisions made by Risk Management Council, and makes practical decisions to implement risk management policies and procedures.

- Credit Risk Management Subcommittee

The Credit Risk Management Subcommittee reviews the newly developed credit derivatives and exotic products, and the establishment and modification of calculation guideline and measurement methodology on credit exposure limits.

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- Market Risk Management Subcommittee

The Market Risk Management Subcommittee reviews and makes decisions on setting risk limits and approving the standard for investments in newly developed standard, exotic and hybrid products.

- Operational Risk Management Subcommittee

The Operational Risk Management Subcommittee reviews the issues that have a significant effect on the Group's operational risk relating to establishment, amendment and abolition of major system, process and others.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management.

4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management group that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's credit group, customer service group and SME/SOHO service group, which are independent from the sales department, are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent

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events. The credit risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Financial assets		
Due from financial institutions	₩ 12,092,294	₩ 11,429,305
Financial assets at fair value through profit or loss		
Financial assets held for trading ¹	6,356,529	7,420,128
Financial assets designated at fair value through profit or loss	70,198	-
Derivatives	2,186,010	1,910,217
Loans ²	222,738,064	211,525,560
Financial investments		
Available-for-sale financial assets	18,293,533	16,415,900
Held-to-maturity financial assets	11,748,794	10,124,136
Other financial assets	<u>6,887,727</u>	<u>6,529,032</u>
	<u>280,373,149</u>	<u>265,354,278</u>
Off-balance sheet items		
Acceptances and guarantees contracts	8,932,463	8,957,888
Financial guarantee contracts	4,014,116	4,438,399
Commitments	<u>56,752,653</u>	<u>59,458,332</u>
	<u>69,699,232</u>	<u>72,854,619</u>
	<u>₩ 350,072,381</u>	<u>₩ 338,208,897</u>

¹ The amounts of ₩69,060 million and ₩51,345 million as of December 31, 2015 and 2014, respectively, related to financial instruments indexed to the price of gold are included.

² Loans and other financial assets are presented net of allowance for loan losses.

4.2.4 Credit risk of loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

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Loans are categorized as follows:

(In millions of Korean won)

Loans	2015					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 114,339,823	98.60	₩ 106,622,773	98.00	₩ 220,962,596	98.31
Past due but not impaired	1,095,774	0.94	283,238	0.26	1,379,012	0.61
Impaired	530,988	0.46	1,891,347	1.74	2,422,335	1.08
	115,966,585	100.00	108,797,358	100.00	224,763,943	100.00
Allowances	(432,414)	0.37	(1,593,465)	1.46	(2,025,879)	0.90
Carrying amount	<u>₩ 115,534,171</u>		<u>₩ 107,203,893</u>		<u>₩ 222,738,064</u>	

(In millions of Korean won)

Loans	2014					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 110,154,228	98.14	₩ 98,992,267	97.81	₩ 209,146,495	97.98
Past due but not impaired	1,437,183	1.28	328,393	0.32	1,765,576	0.83
Impaired	652,092	0.58	1,888,994	1.87	2,541,086	1.19
	112,243,503	100.00	101,209,654	100.00	213,453,157	100.00
Allowances	(476,974)	0.42	(1,450,623)	1.43	(1,927,597)	0.90
Carrying amount	<u>₩ 111,766,529</u>		<u>₩ 99,759,031</u>		<u>₩ 211,525,560</u>	

Credit quality of loans that are neither past due nor impaired is as follows:

(In millions of Korean won)

	2015		
	Retail	Corporate	Total
Grade 1	₩ 100,584,890	₩ 48,340,172	₩ 148,925,062
Grade 2	11,581,264	46,094,415	57,675,679
Grade 3	1,422,572	9,978,535	11,401,107
Grade 4	509,761	1,797,388	2,307,149
Grade 5	241,336	412,263	653,599
	<u>₩ 114,339,823</u>	<u>₩ 106,622,773</u>	<u>₩ 220,962,596</u>

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(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Grade 1	₩ 97,566,588	₩ 42,053,952	₩ 139,620,540
Grade 2	11,043,769	43,764,285	54,808,054
Grade 3	872,739	10,949,734	11,822,473
Grade 4	453,942	1,858,963	2,312,905
Grade 5	217,190	365,333	582,523
	<u>₩ 110,154,228</u>	<u>₩ 98,992,267</u>	<u>₩ 209,146,495</u>

Credit quality of loans graded according to internal credit ratings is as follows:

	Retail	Corporate
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2015			Total
	1~29 days	30~59 days	60~89 days	
Retail	₩ 935,766	₩ 108,682	₩ 51,326	₩ 1,095,774
Corporate	214,332	55,832	13,074	283,238
	<u>₩ 1,150,098</u>	<u>₩ 164,514</u>	<u>₩ 64,400</u>	<u>₩ 1,379,012</u>

(In millions of Korean won)

	2014			Total
	1~29 days	30~59 days	60~89 days	
Retail	₩ 1,231,819	₩ 138,947	₩ 66,417	₩ 1,437,183
Corporate	277,288	37,090	14,015	328,393
	<u>₩ 1,509,107</u>	<u>₩ 176,037</u>	<u>₩ 80,432</u>	<u>₩ 1,765,576</u>

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Impaired loans are as follows:

(In millions of Korean won)

	2015		
	Retail	Corporate	Total
Loans	₩ 530,988	₩ 1,891,347	₩ 2,422,335
Allowances	(208,921)	(1,135,346)	(1,344,267)
Individual	-	(955,250)	(955,250)
Collective	(208,921)	(180,096)	(389,017)
	<u>₩ 322,067</u>	<u>₩ 756,001</u>	<u>₩ 1,078,068</u>

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Loans	₩ 652,092	₩ 1,888,994	₩ 2,541,086
Allowances	(257,641)	(986,848)	(1,244,489)
Individual	-	(780,376)	(780,376)
Collective	(257,641)	(206,472)	(464,113)
	<u>₩ 394,451</u>	<u>₩ 902,146</u>	<u>₩ 1,296,597</u>

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
Guarantee	₩ 26,150	₩ 130,774	₩ 248,709	₩ 42,736,193	₩ 43,141,826
Deposits and savings	599	9,875	26,681	1,724,084	1,761,239
Property and equipment	7,888	3,626	181	1,362,910	1,374,605
Real estate	170,694	410,403	826,655	128,875,879	130,283,631
	<u>₩ 205,331</u>	<u>₩ 554,678</u>	<u>₩ 1,102,226</u>	<u>₩ 174,699,066</u>	<u>₩ 176,561,301</u>

(In millions of Korean won)

	2014				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
Guarantee	₩ 18,255	₩ 143,431	₩ 277,607	₩ 34,969,421	₩ 35,408,714
Deposits and savings	948	15,466	35,568	1,781,548	1,833,530
Property and equipment	7,604	4,806	1,943	1,151,842	1,166,195
Real estate	177,623	507,705	1,124,130	123,011,312	124,820,770
	<u>₩ 204,430</u>	<u>₩ 671,408</u>	<u>₩ 1,439,248</u>	<u>₩ 160,914,123</u>	<u>₩ 163,229,209</u>

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4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments, excluding equity securities, that are exposed to credit risk are as follows:

<i>(In millions of Korean won)</i>		2015		2014
Securities that are neither past due nor impaired	₩	36,399,994	₩	33,908,029
Impaired securities		-		790
	₩	<u>36,399,994</u>	₩	<u>33,908,819</u>

The credit quality of securities, excluding equity securities that are neither past due nor impaired, as of December 31, 2015 and 2014, is as follows:

<i>(In millions of Korean won)</i>		2015					
		Grade 1	Grade 2	Grade 3¹	Grade 4	Grade 5	Total
Financial assets held for trading	₩	4,901,368	₩1,378,097	₩ 8,004	₩ -	₩ -	₩ 6,287,469
Financial assets designated at fair value through profit or loss		70,198	-	-	-	-	70,198
Available-for-sale financial assets		17,885,148	342,987	65,398	-	-	18,293,533
Held-to-maturity financial assets		11,748,794	-	-	-	-	11,748,794
	₩	<u>34,605,508</u>	<u>₩1,721,084</u>	<u>₩73,402</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩36,399,994</u>

<i>(In millions of Korean won)</i>		2014					
		Grade 1	Grade 2	Grade 3¹	Grade 4	Grade 5	Total
Financial assets held for trading	₩	6,187,646	₩1,181,137	₩ -	₩ -	₩ -	₩ 7,368,783
Available-for-sale financial assets		16,062,648	288,531	63,931	-	-	16,415,110
Held-to-maturity financial assets		10,124,136	-	-	-	-	10,124,136
	₩	<u>32,374,430</u>	<u>₩1,469,668</u>	<u>₩63,931</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩33,908,029</u>

¹ As there is no foreign credit rating, it is classified as Grade 3.

The credit qualities of securities excluding equity securities according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KAP	KIS	NICE P&I	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB-to BBB+	BBB-to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB-or under	BB-or under	BB-or under	B or under	B or under	B2 or under

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Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Deposits and savings, securities and others	₩ 424,559	₩ 329,482

4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>	<u>%</u>	<u>Allowances</u>	<u>Carrying amount</u>
Korea	₩115,924,173	₩106,429,100	₩222,353,273	98.93	₩(1,983,058)	₩220,370,215
China	30	905,693	905,723	0.40	(17,674)	888,049
Japan	1,737	138,278	140,015	0.06	(21,404)	118,611
United States	-	925,391	925,391	0.41	(1,056)	924,335
Europe	1	180,429	180,430	0.08	(513)	179,917
Others	40,644	218,467	259,111	0.12	(2,174)	256,937
Total	<u>₩115,966,585</u>	<u>₩108,797,358</u>	<u>₩224,763,943</u>	<u>100.00</u>	<u>₩(2,025,879)</u>	<u>₩222,738,064</u>

(In millions of Korean won)

	<u>2014</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>	<u>%</u>	<u>Allowances</u>	<u>Carrying amount</u>
Korea	₩112,193,456	₩ 99,117,030	₩211,310,486	99.00	₩(1,876,968)	₩209,433,518
China	84	764,415	764,499	0.36	(15,543)	748,956
Japan	2,581	271,914	274,495	0.13	(31,393)	243,102
United States	-	698,294	698,294	0.33	(629)	697,665
Europe	9	184,307	184,316	0.09	(389)	183,927
Others	47,373	173,694	221,067	0.09	(2,675)	218,392
Total	<u>₩112,243,503</u>	<u>₩101,209,654</u>	<u>₩213,453,157</u>	<u>100.00</u>	<u>₩(1,927,597)</u>	<u>₩211,525,560</u>

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The details of the Group's corporate loans by industry as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,591,217	7.90	₩ (12,016)	₩ 8,579,201
Manufacturing	35,333,785	32.48	(801,080)	34,532,705
Service	43,890,888	40.34	(338,056)	43,552,832
Wholesale and retail	13,445,957	12.36	(151,337)	13,294,620
Construction	3,373,093	3.10	(265,776)	3,107,317
Public	783,767	0.72	(5,221)	778,546
Others	3,378,651	3.10	(19,979)	3,358,672
	<u>₩ 108,797,358</u>	<u>100.00</u>	<u>₩ (1,593,465)</u>	<u>₩ 107,203,893</u>

(In millions of Korean won)

	2014			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,988,881	8.88	₩ (81,715)	₩ 8,907,166
Manufacturing	32,644,110	32.25	(520,898)	32,123,212
Service	39,106,240	38.64	(276,889)	38,829,351
Wholesale and retail	13,150,375	12.99	(150,237)	13,000,138
Construction	3,688,014	3.64	(396,672)	3,291,342
Public	741,679	0.74	(6,718)	734,961
Others	2,890,355	2.86	(17,494)	2,872,861
	<u>₩ 101,209,654</u>	<u>100.00</u>	<u>₩ (1,450,623)</u>	<u>₩ 99,759,031</u>

The details of the Group's retail loans by type as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 53,674,493	46.28	₩ (23,345)	₩ 53,651,148
General purpose	62,292,092	53.72	(409,069)	61,883,023
	<u>₩ 115,966,585</u>	<u>100.00</u>	<u>₩ (432,414)</u>	<u>₩ 115,534,171</u>

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	2014			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 52,456,336	46.73	₩ (30,199)	₩ 52,426,137
General purpose	59,787,167	53.27	(446,775)	59,340,392
	<u>₩ 112,243,503</u>	<u>100.00</u>	<u>₩ (476,974)</u>	<u>₩ 111,766,529</u>

The details of the Group's securities excluding equity securities and derivative financial instruments by industry as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 1,953,030	31.06
Finance and Insurance	3,352,106	53.32
Others	982,333	15.62
	<u>6,287,469</u>	<u>100.00</u>
Financial assets designated at fair value through profit or loss		
Finance and Insurance	70,198	100.00
	<u>70,198</u>	<u>100.00</u>
Derivative financial assets		
Government and government funded institutions	56,652	2.59
Finance and Insurance	1,917,163	87.70
Others	212,195	9.71
	<u>2,186,010</u>	<u>100.00</u>
Available-for-sale financial assets		
Government and government funded institutions	5,223,923	28.56
Finance and Insurance	11,557,597	63.18
Others	1,512,013	8.26
	<u>18,293,533</u>	<u>100.00</u>
Held-to-maturity financial assets		
Government and government funded institutions	5,219,388	44.42
Finance and Insurance	6,168,345	52.50
Others	361,061	3.08
	<u>11,748,794</u>	<u>100.00</u>
	<u>₩38,586,004</u>	

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	2014	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,683,605	36.42
Finance and Insurance	3,863,046	52.42
Others	822,132	11.16
	<u>7,368,783</u>	<u>100.00</u>
Derivative financial assets		
Government and government funded institutions	19,732	1.03
Finance and Insurance	1,755,495	91.90
Others	134,990	7.07
	<u>1,910,217</u>	<u>100.00</u>
Available-for-sale financial assets		
Government and government funded institutions	7,204,867	43.89
Finance and Insurance	7,458,222	45.43
Others	1,752,811	10.68
	<u>16,415,900</u>	<u>100.00</u>
Held-to-maturity financial assets		
Government and government funded institutions	8,072,831	79.74
Finance and Insurance	1,519,324	15.01
Others	531,981	5.25
	<u>10,124,136</u>	<u>100.00</u>
	<u>₩35,819,036</u>	

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The details of the Group's securities excluding equity securities and derivative financial instruments by country, as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	
	Amount	%
Financial assets held for trading		
Korea	₩ 6,255,711	99.49
Others	31,758	0.51
	<u>6,287,469</u>	<u>100.00</u>
Financial assets designated at fair value through profit or loss		
Korea	70,198	100.00
Derivative financial assets		
Korea	1,198,321	54.82
United States	297,323	13.60
Others	690,366	31.58
	<u>2,186,010</u>	<u>100.00</u>
Available-for-sale financial assets		
Korea	17,958,267	98.17
Others	335,266	1.83
	<u>18,293,533</u>	<u>100.00</u>
Held-to-maturity financial assets		
Korea	11,373,754	96.81
Others	375,040	3.19
	<u>11,748,794</u>	<u>100.00</u>
	<u>₩38,586,004</u>	

(In millions of Korean won)

	2014	
	Amount	%
Financial assets held for trading		
Korea	₩ 7,309,697	99.20
Others	59,086	0.80
	<u>7,368,783</u>	<u>100.00</u>
Derivative financial assets		
Korea	736,644	38.56
United States	273,807	14.33
Others	899,766	47.11
	<u>1,910,217</u>	<u>100.00</u>
Available-for-sale financial assets		
Korea	16,363,300	99.68
Others	52,600	0.32
	<u>16,415,900</u>	<u>100.00</u>
Held-to-maturity financial assets		
Korea	10,124,136	100.00
	<u>₩35,819,036</u>	

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The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the financial and insurance industries which have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other in and outflows, and off-balance sheet items related to the inflows and outflows of currency derivative instruments and others.

4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM ('Asset Liability Management') and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

The Group has to establish the liquidity risk management strategy including the objectives of liquidity risk management, management policies and internal control system, and obtain approval from Risk Management Committee. Risk Management Committee operates the Risk Management Council for the purpose of efficient risk management, monitors establishment and enforcement of policies based on risk management strategy.

For the purpose of liquidity management, the liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk on transactions affecting the inflows and outflows of funds and transactions of off-balance sheet items are measured, managed and reported to the Risk Management Committee and Risk Management Council on a regular basis.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amounts in the consolidated financial statements which are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

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The remaining contractual maturity of financial assets and liabilities as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

		2015						
		On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets								
Cash and due from								
financial institutions ¹	₩	6,032,676	₩ 246,719	₩ 727,859	₩ 662,142	₩ -	₩ -	₩ 7,669,396
Financial assets held								
for trading ²		6,417,419	-	-	-	-	-	6,417,419
Financial assets								
designated at fair								
value through profit or								
loss ²		70,198	-	-	-	-	-	70,198
Derivatives held for								
trading ²		2,093,446	-	-	-	-	-	2,093,446
Derivatives held for								
hedging ³		-	5,391	18,885	13,558	38,972	111,268	188,074
Loans		-	14,899,299	21,090,406	77,358,018	59,071,999	87,354,815	259,774,537
Available-for-sale								
financial assets ⁴		2,710,980	838,524	1,623,536	4,619,917	10,889,821	1,326,841	22,009,619
Held-to-maturity								
financial assets		-	380,043	1,052,763	2,342,242	6,857,869	2,582,091	13,215,008
Other financial assets		-	5,365,209	1,438	1,160,950	-	-	6,527,597
	₩	17,324,719	₩ 21,735,185	₩ 24,514,887	₩ 86,156,827	₩ 76,858,661	₩ 91,375,015	₩ 317,965,294
Financial liabilities								
Financial liabilities held								
for trading	₩	69,465	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 69,465
Derivatives held for								
trading ²		2,116,752	-	-	-	-	-	2,116,752
Derivatives held for								
hedging ³		-	1,981	945	(10,279)	(25,096)	(35,050)	(67,499)
Deposits ⁵		100,662,818	14,813,368	25,149,270	73,490,239	10,906,981	3,158,015	228,180,691
Debts		668	3,847,167	1,821,523	4,363,821	3,942,347	537,209	14,512,735
Debentures		68,852	401,430	768,923	5,164,794	8,065,069	2,761,403	17,230,471
Other financial liabilities		-	6,908,783	807	72,725	11,330	84,209	7,077,854
	₩	102,918,555	₩ 25,972,729	₩ 27,741,468	₩ 83,081,300	₩ 22,900,631	₩ 6,505,786	₩ 269,120,469
Off-balance sheet items								
Commitments ⁶	₩	56,752,653	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 56,752,653
Financial guarantee								
contracts ⁷		4,014,116	-	-	-	-	-	4,014,116
	₩	60,766,769	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 60,766,769

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	2014						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial assets							
Cash and due from financial institutions ¹	₩ 6,199,811	₩ 115,410	₩ 397,630	₩ 398,069	₩ -	₩ -	₩ 7,110,920
Financial assets held for trading ²	7,520,471	-	-	-	-	-	7,520,471
Derivatives held for trading ²	1,800,664	-	-	-	-	-	1,800,664
Derivatives held for hedging ³	-	7,742	(1,147)	20,804	77,968	118,803	224,170
Loans	-	15,031,604	20,823,904	73,586,107	55,823,249	87,750,770	253,015,634
Available-for-sale financial assets ⁴	2,647,102	435,221	1,537,962	4,386,464	10,272,973	767,319	20,047,041
Held-to-maturity financial assets	-	272,086	630,918	3,354,275	6,281,737	462,437	11,001,453
Other financial assets	-	4,791,711	-	1,293,372	-	-	6,085,083
	<u>₩ 18,168,048</u>	<u>₩ 20,653,774</u>	<u>₩ 23,389,267</u>	<u>₩ 83,039,091</u>	<u>₩ 72,455,927</u>	<u>₩ 89,099,329</u>	<u>₩ 306,805,436</u>
Financial liabilities							
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 51,650
Derivatives held for trading ²	1,755,674	-	-	-	-	-	1,755,674
Derivatives held for hedging ³	-	-	652	146	6,304	(15,581)	(8,479)
Deposits ⁵	83,199,560	13,960,805	25,460,933	80,474,828	9,602,204	3,266,903	215,965,233
Debts	813	3,958,587	1,814,096	4,840,755	3,646,259	281,796	14,542,306
Debentures	159,620	278,543	1,037,466	3,419,151	7,922,417	3,907,637	16,724,834
Other financial liabilities	-	6,200,724	895	67,886	12,182	86,576	6,368,263
	<u>₩ 85,167,317</u>	<u>₩ 24,398,659</u>	<u>₩ 28,314,042</u>	<u>₩ 88,802,766</u>	<u>₩ 21,189,366</u>	<u>₩ 7,527,331</u>	<u>₩ 255,399,481</u>
Off-balance sheet items							
Commitments ⁶	₩ 59,458,332	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 59,458,332
Financial guarantee contracts ⁷	4,438,399	-	-	-	-	-	4,438,399
	<u>₩ 63,896,731</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 63,896,731</u>

¹ The amounts of ₩6,905,996 million and ₩6,879,144 million, which are restricted amount due from the financial institutions as of December 31, 2015 and 2014, respectively, are excluded.

² Financial instruments held for trading, financial assets designated at fair value through profit or loss, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the 'On demand' category. However, the Bank has an obligation to purchase bonds at face value(with accrued interest) amounting to USD 300 million if an issuer does not exercise early redemption right at the end of the five-year period from the date of issuance(May 8, 2015) or if the issuer goes bankrupt within five years from the date of issuance. In addition, the Bank has an option to request the issuer to acquire these bonds either in cash or the issuer's stocks at the issuer's choice. These transactions are excluded from the table above.

³ Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

⁴ Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.

⁵ Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

⁶ Unused lines of credit within commitments are included under the 'On demand' category as payments can be required upon request.

⁷ Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

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4.4 Market risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors, and incurred in securities, derivatives and others. The most significant risks associated with trading positions are interest rate risks and currency risks, and other risks include stock price risks. In addition, the Group is exposed to interest rate risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions for managerial purpose.

4.4.2 Risk management

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed products through its Risk Management Council. The Market Risk Management Subcommittee, which is chaired by the Chief Risk Officer (CRO), is the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The ALCO determines the operational standards of interest and commission, the details of establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measure and monitor the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate gap, duration gap and interest rate VaR, are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the Financial Planning Department. Also, the Risk Management Department independently reports related information to management.

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4.4.3 Trading Position

Definition of a trading position

Trading positions subject to market risk management are interest rate, stock price positions for short-term profit-taking and others. Also, they include all foreign exchange rate positions. The basic requirements of trading positions are defined under the Trading Policy and Guideline, are as follows:

- The trading position is not restricted for purchase and sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the value-at-risk methodology to measure the market risk of trading positions.

The Group now uses the ten-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level

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using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. When the internal model is not permitted for certain market risk, the Group uses the standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back-Testing

Back-testing is conducted on a daily basis to validate the adequacy of the VaR model. In back-testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of options and other risk factors that have significant influence on the value of the portfolio. The Group uses historical scenarios and hypothetical scenarios for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

VaR at a 99%, excluding Stressed Value at Risks, confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 18,403	₩ 10,022	₩ 27,134	₩ 15,788
Stock price risk	1,711	866	3,880	2,040
Foreign exchange rate risk	12,429	8,322	21,935	21,935
Deduction of diversification effect				(16,577)
Total VaR	<u>₩ 23,930</u>	<u>₩ 11,730</u>	<u>₩ 33,885</u>	<u>₩ 23,186</u>

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	2014			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 12,938	₩ 7,657	₩ 19,801	₩ 10,148
Stock price risk	1,627	714	3,858	851
Foreign exchange rate risk	12,049	5,070	14,705	10,814
Deduction of diversification effect				(8,809)
Total VaR	₩ 15,383	₩ 10,089	₩ 23,560	₩ 13,004

Meanwhile, the market risk of positions related to Kookmin Bank (China) Ltd. and 30-year government bonds, which previously were measured using a standard method, is included in the calculation of VaR according to the approval of internal model from Financial Supervisory Service. The required equity capital using the standard method related to the positions which are not measured by VaR as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015	2014
Interest rate risk	₩ 34	₩ 792
Stock price risk	118	1,101
Foreign exchange rate risk	-	9,387
	₩ 152	₩ 11,280

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on major trading portfolio using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency and foreign currency derivatives. Net foreign currency exposure mostly occurs from the foreign assets

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and liabilities which are denominated in US dollars and Chinese yuan. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading position

i. Definition of non-trading position

Managed interest rate risk in non-trading position includes on- or off-balance sheet assets, liabilities and derivatives that are sensitive to interest rate, except trading position for market risk. The interest rate sensitive assets and liabilities are interest-bearing assets and liabilities that create interest income and expenses.

ii. Observation method on market risk arising from non-trading position

Interest rate risk occurs due to mismatches on maturities and interest rate reset periods between interest-bearing assets and liabilities. The Group manages the risk through measuring and managing interest rate VaR and EaR that are maximum expected decreases in net asset value (NPV) and net interest income (NII) for one year, respectively, arising from unfavorable changes in market interest rate.

iii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Interest Rate VaR	₩94,500	₩112,500

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4.4.5 Financial assets and liabilities in foreign currencies

Financial assets and liabilities in foreign currencies as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						Total
	USD	JPY	EUR	GBP	CNY	Others	
Financial assets							
Cash and due from financial institutions	₩ 2,008,023	₩ 227,546	₩ 114,154	₩ 14,891	₩ 91,694	₩ 182,757	₩ 2,639,065
Financial assets held for trading	35,025	-	2,616	-	-	-	37,641
Derivatives held for trading	64,690	-	354	-	-	-	65,044
Derivatives held for hedging	8,610	-	-	-	-	-	8,610
Loans	12,873,728	507,615	458,483	19,365	4,329	136,560	14,000,080
Available-for-sale financial assets	1,245,415	60,591	-	-	-	871	1,306,877
Held-to-maturity financial assets	375,040	-	-	-	-	-	375,040
Other financial assets	981,637	182,766	216,546	5,381	192,667	145,218	1,724,215
	<u>₩ 17,592,168</u>	<u>₩ 978,518</u>	<u>₩ 792,153</u>	<u>₩ 39,637</u>	<u>₩ 288,690</u>	<u>₩ 465,406</u>	<u>₩ 20,156,572</u>
Financial liabilities							
Derivatives held for trading	₩ 92,115	₩ -	₩ 458	₩ -	₩ -	₩ -	₩ 92,573
Derivatives held for hedging	21,461	-	-	-	-	-	21,461
Deposits	6,390,919	496,224	384,116	22,674	58,848	374,717	7,727,498
Debts	6,650,235	217,887	143,060	7,916	4,511	110,535	7,134,144
Debentures	3,519,615	-	106,284	-	-	157,337	3,783,236
Other financial liabilities	1,702,027	98,431	160,867	10,454	185,652	26,639	2,184,070
	<u>₩ 18,376,372</u>	<u>₩ 812,542</u>	<u>₩ 794,785</u>	<u>₩ 41,044</u>	<u>₩ 249,011</u>	<u>₩ 669,228</u>	<u>₩ 20,942,982</u>
Off-balance sheet items	₩ 14,900,814	₩ 3,612	₩ 1,281	₩ -	₩ 3,190	₩ 81,206	₩ 14,990,103

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(In millions of Korean won)

	2014						Total
	USD	JPY	EUR	GBP	CNY	Others	
Financial assets							
Cash and due from financial institutions	₩ 1,517,144	₩ 145,574	₩104,880	₩10,827	₩47,653	₩115,641	₩ 1,941,719
Financial assets held for trading	43,753	-	15,333	-	-	-	59,086
Derivatives held for trading	55,879	-	694	-	-	-	56,573
Derivatives held for hedging	5,032	-	-	-	-	-	5,032
Loans	10,753,455	900,972	402,656	6,613	3,492	115,633	12,182,821
Available-for-sale financial assets	797,416	-	-	-	-	870	798,286
Other financial assets	1,189,303	61,140	75,970	1,710	46,434	8,908	1,383,465
	<u>₩14,361,982</u>	<u>₩1,107,686</u>	<u>₩599,533</u>	<u>₩19,150</u>	<u>₩97,579</u>	<u>₩241,052</u>	<u>₩16,426,982</u>
Financial liabilities							
Derivatives held for trading	₩ 85,042	₩ -	₩ 920	₩ -	₩ -	₩ -	85,962
Derivatives held for hedging	226	-	-	-	-	-	226
Deposits	4,612,649	386,851	188,386	19,887	21,297	273,317	5,502,387
Debts	6,388,482	258,483	303,866	880	3,577	168,908	7,124,196
Debentures	2,766,605	73,606	26,731	-	-	22,672	2,889,614
Other financial liabilities	1,194,856	76,150	78,093	7,157	46,710	13,029	1,415,995
	<u>₩15,047,860</u>	<u>₩ 795,090</u>	<u>₩597,996</u>	<u>₩27,924</u>	<u>₩71,584</u>	<u>₩477,926</u>	<u>₩17,018,380</u>
Off-balance sheet items	₩17,252,450	₩ 3,511	₩ 6,549	₩ 4,704	₩11,628	₩ 72,747	₩17,351,589

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk as risk of loss resulting from inadequate or failed internal processes, people, systems and external events. The operational risk includes financial and non-financial risks.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with requirements of regulatory authorities but is also to establish an integrated system to cultivate enterprise culture that values importance of risk management, strengthen internal controls, improve processes and provide with

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timely feedback to management and employees so that eventually mitigate operational risk of the company. In addition, the Group established Business Continuity Planning (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out full scale test for head office and IT departments to test its BCPs.

4.6 Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III revised by Basel Committee on Banking Supervision in Bank for International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 4.5% (2014: 4.0%), a minimum Tier 1 ratio of 6.0% (2014: 5.5%) and a minimum Total Regulatory Capital of 8.0% (2014: 8.0%) as of December 31, 2015.

The Group's equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.

- Additional Tier 1 Capital: Additional Tier 1 Capital includes perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.

- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary in accordance with Regulations on Supervision of Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Regulations on Supervision of Banking Business and uses it for its capital ratio calculation.

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In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review using the assessment of the capital adequacy. The economic capital is calculated by adding the stress testing results and other required items to the total economic capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and business group. Each business group efficiently operates its capital within range of granted economic capital. The Risk Management Department of the Group monitors a management of the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion. The Group and its subsidiaries complied with external capital adequacy requirements as of December 31, 2015 and 2014.

The details of the Group's capital adequacy calculation in line with Basel III requirements as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Equity capital	₩ 23,685,840	₩ 23,421,797
Tier I Capital	20,331,853	19,620,849
Common Equity Tier 1 Capital	20,331,853	19,620,849
Tier II Capital	3,353,987	3,800,948
Risk-weighted assets:	147,972,883	146,689,770
Credit risk ¹	133,389,054	132,453,117
Market risk ²	4,189,408	3,445,138
Operational risk ³	10,394,421	10,791,515
Equity Capital (%):	16.01	15.97
Tier I Capital (%)	13.74	13.38
Common Equity Tier 1 Capital (%)	13.74	13.38

¹ Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.

² Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.

³ Operational risk-weighted assets are measured using the Advanced Measurement Approach.

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5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group's management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

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Financial information by business segment as of and for the year ended December 31, 2015, is as follows:

(In millions of Korean won)

	2015				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 1,720,023	₩ 2,115,837	₩ 1,897,562	₩ -	₩ 5,733,422
Segment operating revenues(expenses)	(630)	-	11,059	(10,429)	-
	1,719,393	2,115,837	1,908,621	(10,429)	5,733,422
Net interest income	2,320,217	2,102,326	289,022	182	4,711,747
Interest income	3,513,603	3,858,102	1,028,870	(12,193)	8,388,382
Interest expense	(1,193,386)	(1,755,776)	(739,848)	12,375	(3,676,635)
Net fee and commission income	232,708	569,832	370,767	(16,934)	1,156,373
Fee and commission income	296,498	671,184	421,946	(17,574)	1,372,054
Fee and commission expense	(63,790)	(101,352)	(51,179)	640	(215,681)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	37	-	286,991	-	287,028
Net other operating income(expenses)	(833,569)	(556,321)	961,841	6,323	(421,726)
General and administrative expenses	(847,029)	(2,004,800)	(960,183)	191	(3,811,821)
Operating profit before provision for credit losses	872,364	111,037	948,438	(10,238)	1,921,601
Provision(reversal) for credit losses	(715,926)	(80,213)	54,428	91	(741,620)
Operating profit	156,438	30,824	1,002,866	(10,147)	1,179,981
Share of profit of associates	-	-	7,812	-	7,812
Net other non-operating income	1,317	-	202,783	(10,664)	193,436
Segment profit before income tax expense	157,755	30,824	1,213,461	(20,811)	1,381,229
Income tax expense	(38,973)	(7,460)	(214,275)	(13,283)	(273,991)
Profit for the period	118,782	23,364	999,186	(34,094)	1,107,238
Profit attributable to shareholders of the parent company	118,782	23,364	999,186	(34,094)	1,107,238
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets ¹	103,042,327	114,849,508	75,393,978	(3,007,906)	290,277,907
Total liabilities ¹	89,293,741	130,631,229	49,263,959	(1,658,233)	267,530,696

¹ Amounts before intra-group transaction adjustment.

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Financial information by business segment as of and for the year ended December 31, 2014, is as follows:

	2014				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 1,742,308	₩ 2,211,969	₩ 1,682,954	₩ -	₩ 5,637,231
Segment operating revenues(expenses)	38,379	(48,256)	60,295	(50,418)	-
	1,780,687	2,163,713	1,743,249	(50,418)	5,637,231
Net interest income	2,448,966	2,079,834	407,018	35,628	4,971,446
Interest income	4,008,584	4,432,760	1,286,127	(24,844)	9,702,627
Interest expense	(1,559,618)	(2,352,926)	(879,109)	60,472	(4,731,181)
Net fee and commission income	237,229	524,784	333,768	(17,736)	1,078,045
Fee and commission income	277,196	597,072	416,316	(19,246)	1,271,338
Fee and commission expense	(39,967)	(72,288)	(82,548)	1,510	(193,293)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	179	(20,238)	376,282	68	356,291
Net other operating income(expenses)	(905,687)	(420,667)	626,181	(68,378)	(768,551)
General and administrative expenses	(711,029)	(1,695,563)	(966,266)	-	(3,372,858)
Operating profit before provision for credit losses	1,069,658	468,150	776,983	(50,418)	2,264,373
Provision for credit losses	(566,942)	(304,116)	(10,204)	(6,392)	(887,654)
Operating profit	502,716	164,034	766,779	(56,810)	1,376,719
Share of profit of associates	-	-	17,555	-	17,555
Net other non-operating income	1,242	-	20,309	(55,550)	(33,999)
Segment profit before income tax expense	503,958	164,034	804,643	(112,360)	1,360,275
Income tax expense	(120,504)	(53,967)	(156,056)	(707)	(331,234)
Profit for the period	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to shareholders of the parent company	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets ¹	94,313,469	111,074,156	74,917,627	(4,851,588)	275,453,664
Total liabilities ¹	83,780,834	123,792,699	47,552,921	(1,613,263)	253,513,191

¹ Amounts before intra-group transaction adjustment.

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5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Corporate banking service	₩1,720,023	₩1,742,308
Retail banking service	2,115,837	2,211,969
Other service	<u>1,897,562</u>	<u>1,682,954</u>
	<u>₩5,733,422</u>	<u>₩5,637,231</u>

5.2.2 Geographical information

Operating revenues from external customers for the years ended December 31, 2015 and 2014, and major non-current assets as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>		<u>2014</u>	
	<u>Revenues from external customers</u>	<u>Major non-current assets</u>	<u>Revenues from external customers</u>	<u>Major non-current assets</u>
Domestic	₩ 5,657,170	₩ 3,493,248	₩ 5,533,506	₩ 3,492,836
United States	11,847	276	11,655	256
New Zealand	5,143	209	6,684	193
China	30,590	6,949	46,892	7,518
Japan	10,709	1,547	19,842	1,391
Argentina	-	-	573	-
Vietnam	3,358	239	3,130	287
Cambodia	5,072	350	5,364	564
United Kingdom	9,533	130	9,585	108
Intra-group adjustment	-	1,202	-	1,202
	<u>₩ 5,733,422</u>	<u>₩ 3,504,150</u>	<u>₩ 5,637,231</u>	<u>₩ 3,504,355</u>

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6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 14,562,990	₩ 14,562,700	₩ 13,973,510	₩ 13,973,773
Financial assets held for trading	6,417,419	6,417,419	7,520,471	7,520,471
Debt securities	6,287,469	6,287,469	7,368,783	7,368,783
Equity securities	60,890	60,890	100,343	100,343
Others	69,060	69,060	51,345	51,345
Financial assets designated at fair value through profit or loss	70,198	70,198	-	-
Derivative linked securities	70,198	70,198	-	-
Derivatives held for trading	2,093,458	2,093,458	1,800,664	1,800,664
Derivatives held for hedging	92,552	92,552	109,553	109,553
Loans	222,738,064	222,711,536	211,525,560	211,830,395
Available-for-sale financial assets	21,163,192	21,163,192	19,134,391	19,134,391
Debt securities	18,293,533	18,293,533	16,415,900	16,415,900
Equity securities	2,869,159	2,869,159	2,717,991	2,717,991
Others	500	500	500	500
Held-to-maturity financial assets	11,748,794	12,072,793	10,124,136	10,486,946
Other financial assets	6,887,727	6,887,727	6,529,032	6,529,032
	<u>₩285,774,394</u>	<u>₩286,071,575</u>	<u>₩270,717,317</u>	<u>₩271,385,225</u>
Financial liabilities				
Financial liabilities held for trading	₩ 69,465	₩ 69,465	₩ 51,650	₩ 51,650
Derivatives held for trading	2,116,766	2,116,766	1,755,674	1,755,674
Derivatives held for hedging	21,957	21,957	3,425	3,425
Deposits	224,333,507	225,012,816	211,611,432	212,004,857
Debts	14,291,815	14,321,296	14,297,460	14,344,110
Debentures	15,949,134	16,436,457	15,250,464	15,693,318
Other financial liabilities	9,612,261	9,612,273	9,344,847	9,344,892
	<u>₩266,394,905</u>	<u>₩267,591,030</u>	<u>₩252,314,952</u>	<u>₩253,197,926</u>

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Group discloses the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

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Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions	The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using DCF model (Discounted Cash Flow Model).
Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including DCF Model, FCFE(Free Cash Flow to Equity Model), Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.
Deposits	The carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	The carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.
Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However, fair value of finance lease liabilities is measured using a DCF model.

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Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses the fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values except for quoted prices included within Level 1 are based on inputs that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

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Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015			Total
	Fair value hierarchy			
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets held for trading				
Debt securities	₩2,075,176	₩ 4,212,293	₩ -	₩ 6,287,469
Equity securities	32,584	28,306	-	60,890
Others	69,060	-	-	69,060
	<u>2,176,820</u>	<u>4,240,599</u>	<u>-</u>	<u>6,417,419</u>
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	70,198	70,198
	<u>-</u>	<u>-</u>	<u>70,198</u>	<u>70,198</u>
Derivatives held for trading	-	2,092,861	597	2,093,458
Derivatives held for hedging	-	91,341	1,211	92,552
Available-for-sale financial assets				
Debt securities	5,788,898	12,504,635	-	18,293,533
Equity securities ¹	818,227	497,393	1,553,539	2,869,159
Others	-	500	-	500
	<u>6,607,125</u>	<u>13,002,528</u>	<u>1,553,539</u>	<u>21,163,192</u>
	<u>₩8,783,945</u>	<u>₩19,427,329</u>	<u>₩1,625,545</u>	<u>₩29,836,819</u>
Financial liabilities				
Financial liabilities held for trading	₩ 69,465	₩ -	₩ -	₩ 69,465
Derivatives held for trading	-	2,114,609	2,157	2,116,766
Derivatives held for hedging	-	21,460	497	21,957
	<u>₩ 69,465</u>	<u>₩ 2,136,069</u>	<u>₩ 2,654</u>	<u>₩ 2,208,188</u>

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	2014			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets held for trading				
Debt securities	₩ 3,190,784	₩ 4,177,999	₩ -	₩ 7,368,783
Equity securities	68,963	31,380	-	100,343
Others	51,345	-	-	51,345
	<u>3,311,092</u>	<u>4,209,379</u>	<u>-</u>	<u>7,520,471</u>
Derivatives held for trading	<u>-</u>	<u>1,768,638</u>	<u>32,026</u>	<u>1,800,664</u>
Derivatives held for hedging	<u>-</u>	<u>109,293</u>	<u>260</u>	<u>109,553</u>
Available-for-sale financial assets				
Debt securities	6,707,878	9,708,022	-	16,415,900
Equity securities ¹	1,145,988	633	1,571,370	2,717,991
Others	<u>-</u>	<u>500</u>	<u>-</u>	<u>500</u>
	<u>7,853,866</u>	<u>9,709,155</u>	<u>1,571,370</u>	<u>19,134,391</u>
	<u>₩11,164,958</u>	<u>₩15,796,465</u>	<u>₩1,603,656</u>	<u>₩28,565,079</u>
Financial liabilities				
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives held for trading	-	1,747,645	8,029	1,755,674
Derivatives held for hedging	<u>-</u>	<u>1,144</u>	<u>2,281</u>	<u>3,425</u>
	<u>₩ 51,650</u>	<u>₩ 1,748,789</u>	<u>₩ 10,310</u>	<u>₩ 1,810,749</u>

¹ The amounts of equity securities carried at cost in "Level 3" which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩24,571 million and ₩27,526 million as of December 31, 2015 and 2014, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost. The Group has no plan to dispose of the financial instruments in the near future.

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Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as Level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statements of financial position and classified as Level 2 as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Fair value		Valuation techniques	Inputs
	2015	2014		
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,212,293	₩ 4,177,999	DCF model	Discount rate
Equity securities	28,306	31,380	DCF model	Discount rate
	<u>4,240,599</u>	<u>4,209,379</u>		
Derivatives held for trading	2,092,861	1,768,638	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	91,341	109,293	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	12,504,635	9,708,022	DCF model	Discount rate
Equity securities	497,393	633	DCF model	Discount rate
Others	500	500	DCF model	Discount rate
	<u>13,002,528</u>	<u>9,709,155</u>		
	<u>₩19,427,329</u>	<u>₩15,796,465</u>		
Financial liabilities				
Derivatives held for trading	₩ 2,114,609	₩ 1,747,645	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	21,460	1,144	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	<u>₩ 2,136,069</u>	<u>₩ 1,748,789</u>		

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Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions ¹	₩ 2,470,696	₩ 10,405,952	₩ 1,686,052	₩ 14,562,700
Loans	-	-	222,711,536	222,711,536
Held-to-maturity financial assets	1,775,755	10,297,038	-	12,072,793
Other financial assets ²	-	-	6,887,727	6,887,727
	<u>₩ 4,246,451</u>	<u>₩ 20,702,990</u>	<u>₩ 231,285,315</u>	<u>₩ 256,234,756</u>
Financial liabilities				
Deposits ¹	₩ -	₩ 100,361,458	₩ 124,651,358	₩ 225,012,816
Debts ¹	-	9,884	14,311,412	14,321,296
Debentures	-	16,436,457	-	16,436,457
Other financial liabilities ³	-	-	9,612,273	9,612,273
	<u>₩ -</u>	<u>₩ 116,807,799</u>	<u>₩ 148,575,043</u>	<u>₩ 265,382,842</u>

(In millions of Korean won)

	2014			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions ¹	₩ 2,544,205	₩ 10,198,808	₩ 1,230,760	₩ 13,973,773
Loans	-	-	211,830,395	211,830,395
Held-to-maturity financial assets	2,616,385	7,870,561	-	10,486,946
Other financial assets ²	-	-	6,529,032	6,529,032
	<u>₩ 5,160,590</u>	<u>₩ 18,069,369</u>	<u>₩ 219,590,187</u>	<u>₩ 242,820,146</u>
Financial liabilities				
Deposits ¹	₩ -	₩ 82,783,564	₩ 129,221,293	₩ 212,004,857
Debts ¹	-	48,984	14,295,126	14,344,110
Debentures	-	15,693,318	-	15,693,318
Other financial liabilities ³	-	-	9,344,892	9,344,892
	<u>₩ -</u>	<u>₩ 98,525,866</u>	<u>₩ 152,861,311</u>	<u>₩ 251,387,177</u>

¹ The amounts included in Level 2 are the carrying amounts which are reasonable approximation of the fair values.

² The amounts of other financial assets included in Level 3 are the carrying amounts which are reasonable approximation of the fair values as of December 31, 2015 and 2014.

³ The ₩9,610,088 million and ₩9,331,606 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2015 and 2014, respectively.

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Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Fair value		Valuation Techniques	Inputs
	2015	2014		
Financial assets				
Held-to-maturity financial assets	₩10,297,038	₩ 7,870,561	DCF model	Discount rate
Financial liabilities				
Debentures	₩16,436,457	₩15,693,318	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Fair value		Valuation techniques	Inputs	Unobservable inputs
	2015	2014			
Financial assets					
Cash and due from financial institutions	₩ 1,686,052	₩ 1,230,760	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	222,711,536	211,830,395	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	<u>₩224,397,588</u>	<u>₩213,061,155</u>			
Financial liabilities					
Deposits	₩124,651,358	₩129,221,293	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	14,311,412	14,295,126	DCF model	Other spread, interest rate	Other spread
Other financial liabilities	2,185	13,286	DCF model	Other spread, interest rate	Other spread
	<u>₩138,964,955</u>	<u>₩143,529,705</u>			

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6.2 Level 3 of the fair value hierarchy disclosure

6.2.1 Valuation policy and process of Level 3 fair value

The Group uses external, independent and qualified independent third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group's policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Changes in Level 3 of the fair value hierarchy for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015							
	Financial assets at fair value through profit or loss	Financial investments		Net derivatives				
		Available-for-sale financial assets		Derivatives held for trading	Derivatives held for hedging			
	Equity securities							
Beginning balance	₩	-	₩	1,571,370	₩	23,997	₩	(2,021)
Total gains or losses								
- Profit or loss		(4,802)		204,429		(1,447)		2,735
- Other comprehensive-income		-		(86,953)		-		-
Purchases		75,000		415,633		277		-
Sales		-		(552,600)		-		-
Issues		-		-		-		-
Settlements		-		-		(24,387)		-
Transfers into Level 3 ¹		-		24,850		-		-
Transfers out of Level 3 ¹		-		(23,190)		-		-
Ending balance	₩	70,198	₩	1,553,539	₩	(1,560)	₩	714

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	2014					
	Financial investments		Net derivatives			
	Available-for-sale financial assets		Derivatives held for trading	Derivatives held for hedging		
	Equity securities					
Beginning balance	₩	1,561,667	₩	(4,654)	₩	(8,390)
Total gains or losses						
- Profit or loss		(112,649)		(1,393)		6,579
- Other comprehensive-income		118,579		-		-
Purchases		154,243		-		-
Sales		(170,591)		-		-
Issues		-		-		-
Settlements		-		7,393		(210)
Transfers into Level 3 ¹		24,736		22,651		-
Transfers out of Level 3 ¹		(4,615)		-		-
Ending balance	₩	1,571,370	₩	23,997	₩	(2,021)

¹ Changes in levels for the financial instruments occurred due to the change in the availability of observable market data.

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the period, and total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Net losses from financial investments at fair value through profit or loss	Other operating income(losses)		
Total gains or losses included in profit or loss for the period	₩	(6,249)	₩	207,164
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period		(3,035)		(15,372)

(In millions of Korean won)

	2014			
	Net income(losses) from financial investments at fair value through profit or loss	Other operating losses		
Total gains or losses included in profit or loss for the period	₩	(1,393)	₩	(106,070)
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period		7,533		(112,164)

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6.2.3 Sensitivity analysis of changes in unobservable inputs

Information about fair value measurements using unobservable inputs as of December 31, 2015, is as follows:

(In millions of Korean won)

Financial assets	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets designated at fair value through profit or loss						
Derivative linked securities	₩ 70,198	MonteCarlo Simulation	Price of the underlying asset, interest rate, dividend yield, volatility of the underlying asset, correlation of the underlying assets	Volatility of the underlying asset Correlation of the underlying assets	19.95~31.19 26.37~53.50	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	321	Binomial model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	17.10	Higher the volatility, higher the fair value fluctuation
Currency and interest	264	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	5.56~100.00	Higher the loss rate, decrease the fair value
Others	12	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price Volatility of the interest rate	40.02 0.45	Higher the volatility, higher the fair value fluctuation Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	1,211	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	5.96	Higher the volatility, higher the fair value fluctuation

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	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Available-for-sale financial assets						
				Growth rate	0.00~3.00	Higher the growth rate, higher the fair value
		DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value, recovery rate of receivables' acquisition cost	Discount rate	1.72~20.65	Lower the discount rate, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
Equity securities	1,553,539			Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	<u>₩ 1,625,545</u>					
Financial liabilities						
Derivatives held for trading						
Stock and index		DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(Correlation of rates of return on stocks), dividend yield	Volatility of the underlying asset	31.00~33.80	Higher the volatility, higher the fair value fluctuation
	₩ 2,143			Correlation of rates of return on stocks	11.96	Higher the correlation, higher the fair value fluctuation
Others		MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	40.02	Higher the volatility, higher the fair value fluctuation
	14			Volatility of the interest rate	0.45	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest		DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.93	Higher the volatility, higher the fair value fluctuation
	<u>₩ 2,654</u>					

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Information about fair value measurements using unobservable inputs as of December 31, 2014, is as follows:

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Derivatives held for trading						
			Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets (Correlation of rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of rates of return on stocks	24.20~45.82 -3.27~52.23	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Stock and index	₩ 29,031	DCF model, Closed Form, FDM, Monte Carlo Simulation				
Currency and interest	2,995	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	6.78~90.56	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	260	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.91	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
				Growth rate	0.00~3.00	Higher the growth rate, higher the fair value
				Discount rate	2.29~21.55	Lower the discount rate, higher the fair value
				Volatilities of real estate price	1.10	Higher real estate price, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
			Growth rate, discount rate, volatilities of real estate price, liquidation value, discount rate of cash flows from rent, recovery rate of receivables' acquisition cost	Discount rate of cash flows from rent Recovery rate of receivables' acquisition cost	6.89 155.83	Lower the discount rate of cash flows from rent, higher the fair value Higher the recovery rate of receivables' acquisition cost, higher the fair value
Equity securities	1,571,370	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method				
	₩ 1,603,656					

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	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 8,029	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of rates of return on stocks	25.13~41.79 -3.83~68.20	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	₩ 10,310	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	2.35~3.91	Higher the volatility, higher the fair value fluctuation

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst Level 3 financial instruments subject to sensitivity analysis, there are derivative linked securities, equity-related derivatives, currency-related derivatives, interest rate-related derivatives and other derivatives whose fair value changes are recognized in profit or loss as well as equity securities and private equity funds whose fair value changes are recognized in profit or loss or other comprehensive income and loss.

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Sensitivity analyses by type of instrument as a result of varying input parameters are as follows:

(In millions of Korean won)

	2015			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative linked securities ¹	₩	1,697	₩	(1,507)
Derivatives held for trading ²		337		(10)
Derivatives held for hedging ²		81		(71)
Available-for-sale financial assets ³		-		-
	₩	2,115	₩	(1,588)
Financial liabilities				
Derivatives held for trading ²		8		(13)
Derivatives held for hedging ²		17		(16)
	₩	25	₩	(29)

(In millions of Korean won)

	2015			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Available-for-sale financial assets ³	₩	143,678	₩	(72,762)

(In millions of Korean won)

	2014			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading ²	₩	310	₩	(307)
Derivatives held for hedging ²		17		(15)
Available-for-sale financial assets ³		-		-
	₩	327	₩	(322)
Financial liabilities				
Derivatives held for trading ²	₩	535	₩	(535)
Derivatives held for hedging ²		86		(76)
	₩	621	₩	(611)

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	2014			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Available-for-sale financial assets ³	₩	360,970	₩	(136,378)

- ¹ For derivative linked securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as the volatility of the underlying asset and the correlation of the underlying assets by $\pm 10\%$.
- ² For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by $\pm 10\%$. For foreign currency derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by $\pm 1\%$. For interest rate-related derivatives, the changes in fair value are calculated by shifting the unobservable input parameters such as the correlation of the interest rates or the volatility of the underlying asset by $\pm 10\%$.
- ³ For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate, or recovery rate of receivables' acquisition cost (-1~1%). Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

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The aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference are as follows:

<i>(In millions of Korean won)</i>	2015	2014
Balance at the beginning of the period (A)	₩ 187	₩ 1,330
New transactions (B)	-	-
Amounts recognized in profit or loss during the period (C= a+b)	(178)	(1,143)
a. Amortization	(20)	(73)
b. Settlement	(158)	(1,070)
Balance at the end of the period (A+B+C)	<u>₩ 9</u>	<u>₩ 187</u>

6.3 Carrying amounts of financial instruments by category

Financial assets and liabilities are measured at fair value or amortized cost. The carrying amounts of financial assets and liabilities by category as of December 31, 2015, are as follows:

<i>(In millions of Korean won)</i>	Financial assets at fair value through profit or loss								
	Held for trading	Financial assets designated at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Held-to- maturity financial assets	Derivatives held for hedging	Total		
Financial assets									
Cash and due from financial institutions	₩ -	₩ -	₩ 14,562,990	₩ -	₩ -	₩ -	₩ 14,562,990		
Financial assets at fair value through profit or loss	6,417,419	70,198	-	-	-	-	6,487,617		
Derivatives	2,093,458	-	-	-	-	92,552	2,186,010		
Loans	-	-	222,738,064	-	-	-	222,738,064		
Financial investments	-	-	-	21,163,192	11,748,794	-	32,911,986		
Other financial assets	-	-	6,887,727	-	-	-	6,887,727		
	<u>₩8,510,877</u>	<u>₩70,198</u>	<u>₩244,188,781</u>	<u>₩21,163,192</u>	<u>₩11,748,794</u>	<u>₩92,552</u>	<u>₩285,774,394</u>		

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	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost	Derivatives held for hedging	Total		
	Held for trading						
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩	69,465	₩	-	₩	69,465	
Derivatives		2,116,766		21,957		2,138,723	
Deposits		-	224,333,507	-		224,333,507	
Debts		-	14,291,815	-		14,291,815	
Debentures		-	15,949,134	-		15,949,134	
Other financial liabilities		-	9,612,261	-		9,612,261	
	₩	2,186,231	₩	264,186,717	₩	21,957	₩266,394,905

The carrying amounts of financial assets and liabilities by category as of December 31, 2014, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total	
	Held for trading							
Financial assets								
Cash and due from financial institutions	₩	-	₩ 13,973,510	₩	-	₩	-	₩ 13,973,510
Financial assets at fair value through profit or loss		7,520,471	-	-	-	-		7,520,471
Derivatives		1,800,664	-	-	-	109,553		1,910,217
Loans		-	211,525,560	-	-	-		211,525,560
Financial investments		-	-	19,134,391	10,124,136	-		29,258,527
Other financial assets		-	6,529,032	-	-	-		6,529,032
	₩	9,321,135	₩ 232,028,102	₩ 19,134,391	₩ 10,124,136	₩ 109,553	₩ 270,717,317	

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost	Derivatives held for hedging	Total		
	Held for trading						
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩	51,650	₩	-	₩	51,650	
Derivatives		1,755,674		3,425		1,759,099	
Deposits		-	211,611,432	-		211,611,432	
Debts		-	14,297,460	-		14,297,460	
Debentures		-	15,250,464	-		15,250,464	
Other financial liabilities		-	9,344,847	-		9,344,847	
	₩	1,807,324	₩	250,504,203	₩	3,425	₩252,314,952

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6.4 Transfer of financial assets

6.4.1 Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2015 and 2014, are as follows :

(In millions of Korean won)

	Type of continuing involvement	Classification of financial instruments	2015	
			Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement in statement of financial position
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 48	₩ 48
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	10,335	10,335
Discovery 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	10,448	10,448
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,359	22,359
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	41,810	41,810
AP 3B ABS Ltd. ¹	Senior debt	Loans and receivables	11,496	11,548
	Subordinated debt	Available-for-sale financial assets	27,377	27,377
			<u>₩ 123,873</u>	<u>₩ 123,925</u>

¹ Recognized net gain from transferring loans to the SPEs amounts to ₩10,639 million.

² In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩4,281 million as of December 31, 2015.

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		2014		
	Type of continuing involvement	Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement in statement of financial position
KR ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 4,921	₩ 4,921
KR 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	22,219	22,219
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	11,211	11,211
AP 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	9,762	9,842
	Subordinated debt	Available-for-sale financial assets	17,346	17,346
Discovery 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables	1,175	1,194
	Subordinated debt	Available-for-sale financial assets	22,591	22,591
EAK 2nd Securitization Specialty Co., Ltd. ¹	Senior debt	Loans and receivables	19,806	20,026
	Subordinated debt	Available-for-sale financial assets	38,207	38,207
FK 1411 ABS Ltd. ²	Senior debt	Loans and receivables	44,966	44,917
	Subordinated debt	Available-for-sale financial assets	47,600	47,600
			<u>₩239,804</u>	<u>₩240,074</u>

¹ Recognized net gain from transferring loans to the SPEs amounts to ₩ 6,924 million.

² Recognized net loss from transferring loans to the SPEs amounts to ₩ 27,365 million.

³ In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩ 3,145 million in 2014.

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6.4.2 Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group substantially retains all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	
	Carrying amount of transferred asset	Carrying amount of related liabilities
Securities under repurchase agreements	₩ 608,568	₩ 568,486
Loaned securities	200,389	-
Government and public bonds	200,389	-
	₩ 808,957	₩ 568,486

(In millions of Korean won)

	2014	
	Carrying amount of transferred asset	Carrying amount of related liabilities
Securities under repurchase agreements	₩ 164,382	₩ 148,869
Loaned securities	59,120	-
Government and public bonds	59,120	-
	₩ 223,502	₩ 148,869

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Swaps and Derivatives Association (“ISDA”) master netting agreements and other similar netting arrangements with the Group’s derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group’s reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position.

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The details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 2,093,125	₩ -	₩2,093,125	₩(1,594,838)	₩(22,220)	₩ 476,067
Derivatives held for hedging	92,552	-	92,552	(15,650)	-	76,902
Receivable spot exchange	2,841,945	-	2,841,945	(2,840,480)	-	1,465
Reverse repurchase, securities borrowing and similar agreements	2,028,200	-	2,028,200	(2,028,200)	-	-
Other financial instruments	20,125,762	(17,987,341)	2,138,421	-	-	2,138,421
	<u>₩27,181,584</u>	<u>₩(17,987,341)</u>	<u>₩9,194,243</u>	<u>₩(6,479,168)</u>	<u>₩(22,220)</u>	<u>₩2,692,855</u>

(In millions of Korean won)

	2014					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivatives held for trading	₩ 1,798,280	₩ -	₩ 1,798,280	₩(1,472,239)	₩ (1,635)	₩ 324,406
Derivatives held for hedging	109,553	-	109,553	(15,688)	-	93,865
Receivable spot exchange	2,343,308	-	2,343,308	(2,342,116)	-	1,192
Reverse repurchase, securities borrowing and similar agreements	3,529,900	-	3,529,900	(3,529,900)	-	-
Other financial instruments	18,249,521	(16,161,647)	2,087,874	-	-	2,087,874
	<u>₩26,030,562</u>	<u>₩ (16,161,647)</u>	<u>₩ 9,868,915</u>	<u>₩(7,359,943)</u>	<u>₩ (1,635)</u>	<u>₩2,507,337</u>

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The details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 2,116,486	₩ -	₩2,116,486	₩(1,618,259)	₩(4,633)	₩493,594
Derivatives held for hedging	21,957	-	21,957	(14,417)	-	7,540
Payable spot exchange	2,842,407	-	2,842,407	(2,840,480)	-	1,927
Repurchase, securities lending and similar agreements ¹	568,486	-	568,486	(568,486)	-	-
Other financial instruments	18,105,992	(17,987,341)	118,651	(118,651)	-	-
	<u>₩23,655,328</u>	<u>₩(17,987,341)</u>	<u>₩5,667,987</u>	<u>₩(5,160,293)</u>	<u>₩(4,633)</u>	<u>₩503,061</u>

(In millions of Korean won)

	2014					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,755,221	₩ -	₩ 1,755,221	₩(1,316,268)	₩ -	₩ 438,953
Derivatives held for hedging	3,425	-	3,425	(3,013)	-	412
Payable spot exchange	2,343,234	-	2,343,234	(2,342,116)	-	1,118
Repurchase, securities lending and similar agreements ¹	148,870	-	148,870	(148,870)	-	-
Other financial instruments	16,284,444	(16,161,647)	122,797	(122,797)	-	-
	<u>₩20,535,194</u>	<u>₩(16,161,647)</u>	<u>₩ 4,373,547</u>	<u>₩(3,933,064)</u>	<u>₩ -</u>	<u>₩ 440,483</u>

¹ Includes repurchase agreements sold to customers.

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7. Due from financial institutions

The details of due from financial institutions as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>		Financial Institutions	Interest rate(%)	2015	2014
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00~1.50	₩ 6,376,961	₩ 6,283,230
	Due from banking institutions	KEB Hana Bank and others	0.00~2.60	705,670	585,028
	Due from others	KB Investment & Securities Co., Ltd. and others	0.00~1.00	2,819,387	3,013,288
				<u>9,902,018</u>	<u>9,881,546</u>
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	-	1,211,342	898,437
	Time deposits in foreign currencies	KEB Hana Bank and others	0.00~4.79	941,986	613,153
	Due from others	Bank of Japan and others	-	36,948	36,169
				<u>2,190,276</u>	<u>1,547,759</u>
				<u>₩12,092,294</u>	<u>₩11,429,305</u>

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Restricted due from financial institutions as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		Financial Institutions	2015	2014	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩6,376,961	₩6,283,230	Bank of Korea Act Agreement for allocation of deposit
	Due from banking institutions	KEB Hana Bank and others	-	279,200	
	Due from others	Morgan Stanley Bank International Ltd and others	5,119	1,668	Derivatives margin account and others
			<u>6,382,080</u>	<u>6,564,098</u>	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	501,379	293,067	Bank of Korea Act and others
	Time deposits in foreign currencies	China Merchants Bank NY Branch	17,580	16,488	New York State Banking Law
	Due from others	Samsung Futures Inc. and others	4,868	4,022	Derivatives margin account and others
			<u>523,827</u>	<u>313,577</u>	
			<u>₩6,905,907</u>	<u>₩6,877,675</u>	

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8. Assets pledged as collateral

The details of assets pledged as collateral as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

Assets pledged	Pledgee	2015	
		Carrying amount	Reason for the pledge
Financial assets held for trading	Korea Securities Depository and others	₩ 53,680	Repurchase agreements
		1,021	Derivatives transactions
		<u>54,701</u>	
	KB Investment Co., Ltd.		
Available-for-sale financial assets	Korea Securities Depository and others	481,937	Repurchase agreements
		594,020	Borrowings from Bank of Korea
	Bank of Korea	61,410	Settlement risk of Bank of Korea
	Bank of Korea and Deutsche Bank AG.	412,475	Derivatives transactions
	Others	<u>5,604</u>	Others
		<u>1,555,446</u>	
Held-to-maturity financial assets	Korea Securities Depository and others	101,942	Repurchase agreements
		820,872	Borrowings from Bank of Korea
	Bank of Korea	922,733	Settlement risk of Bank of Korea
	Bank of Korea Samsung Futures Inc. and others	200,625	Derivatives transactions
	Others	<u>174,984</u>	Others
		<u>2,221,156</u>	
Mortgage loans	Others	<u>1,745,823</u>	Covered Bond
		<u>₩ 5,577,126</u>	

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Assets pledged	Pledgee	2014	
		Carrying amount	Reason for the pledge
Financial assets held for trading	Korea Securities		
	Depository and others	₩ 82,990	Repurchase agreements
	Samsung Futures Inc. and others	9,861	Derivatives transactions
	Others	17,864	Settlement of Korea Exchange and others
		<u>110,715</u>	
Available-for-sale financial assets	Samsung Futures Inc. and others	<u>3,308</u>	Derivatives transactions
	Korea Securities Depository and others	1,460,932	Repurchase agreements
Held-to-maturity financial assets	Bank of Korea	993,853	Borrowings from Bank of Korea
	Bank of Korea	1,440,821	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	339,107	Derivatives transactions
	Others	<u>254,980</u>	Others
		<u>4,489,693</u>	
		<u>₩ 4,603,716</u>	

The fair value of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015	
	Fair value of collateral	Fair value of collateral sold or repledged
Securities	₩ 2,045,575	₩ -

(In millions of Korean won)

	2014	
	Fair value of collateral	Fair value of collateral sold or repledged
Securities	₩ 3,598,732	₩ -

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9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won.
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks.
- Stock price index options linked with the KOSPI index.

In particular, the Group applies fair value hedge accounting using cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to the changes in interest rates and foreign exchange rates of structured debentures in Korean won, debentures in foreign currencies, structured deposits in Korean won, and structured deposits in foreign currencies. In addition, the Group applies net investment hedge accounting by designating debentures in foreign currencies as hedging instruments to hedge foreign exchange risks on net investments in foreign operations.

The details of derivative financial instruments for trading as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Notional amount	Assets	Liabilities
Interest rate			
Futures ¹	₩ 528,941	₩ -	₩ -
Swaps	91,057,388	909,024	889,940
Options	5,874,500	73,724	133,087
	<u>97,460,829</u>	<u>982,748</u>	<u>1,023,027</u>
Currency			
Forwards	33,674,825	511,513	304,877
Futures ¹	576,263	-	-
Swaps	25,303,179	596,668	782,912
Options	373,241	2,196	3,526
	<u>59,927,508</u>	<u>1,110,377</u>	<u>1,091,315</u>

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(In millions of Korean won)

	2015		
	Notional amount	Assets	Liabilities
Stock and index			
Futures ¹	26,588	-	-
Swaps	-	-	-
Options	40,571	321	2,410
	<u>67,159</u>	<u>321</u>	<u>2,410</u>
Others	<u>703,200</u>	<u>12</u>	<u>14</u>
	₩ 158,158,696	₩ 2,093,458	₩ 2,116,766

(In millions of Korean won)

	2014		
	Notional amount	Assets	Liabilities
Interest rate			
Futures ¹	₩ 290,290	₩ -	₩ -
Swaps	101,441,724	923,094	956,130
Options	8,398,000	86,277	128,185
	<u>110,130,014</u>	<u>1,009,371</u>	<u>1,084,315</u>
Currency			
Forwards	21,256,930	340,246	214,759
Futures ¹	554,794	-	-
Swaps	18,430,843	415,842	441,696
Options	616,977	6,057	6,078
	<u>40,859,544</u>	<u>762,145</u>	<u>662,533</u>
Stock and index			
Futures ¹	76,298	-	-
Swaps	45,135	26,648	1,166
Options	114,617	2,500	7,660
	<u>236,050</u>	<u>29,148</u>	<u>8,826</u>
	₩ 151,225,608	₩ 1,800,664	₩ 1,755,674

¹ A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

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Fair value hedge

The details of derivatives designated as fair value hedging instruments as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 3,108,538	₩ 91,341	₩ 21,460
Other	140,000	1,211	497
	<u>₩ 3,248,538</u>	<u>₩ 92,552</u>	<u>₩ 21,957</u>

(In millions of Korean won)

	2014		
	Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 2,179,779	₩ 109,293	₩ 1,144
Other	140,000	260	2,281
	<u>₩ 2,319,779</u>	<u>₩ 109,553</u>	<u>₩ 3,425</u>

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Losses on hedging instruments	₩ (39,381)	₩ (28,269)
Gains on the hedged item attributable to the hedged risk	40,002	42,393
	<u>₩ 621</u>	<u>₩ 14,124</u>

Hedges of a net investment in a foreign operation

The Group applies hedge accounting by designating non-derivative financial instruments as hedging instruments to net investments in foreign operations for year ended December 31, 2015.

The effective portion of gain(loss) on hedging instruments recognized in other comprehensive income(loss) is as follows:

(In millions of Korean won)

	<u>2015</u>
Other comprehensive loss	₩ (33,610)
Tax effect	8,134
Other comprehensive loss after tax	<u>₩ (25,476)</u>

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The fair value of non-derivative financial instruments designated as hedging instruments is as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>
Debentures in foreign currencies	₩ 582,205

10. Loans

Loans as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Loans	₩ 224,189,374	₩ 212,907,660
Deferred loan origination fees and costs	574,569	545,497
Allowances	<u>(2,025,879)</u>	<u>(1,927,597)</u>
Carrying amount	<u>₩ 222,738,064</u>	<u>₩ 211,525,560</u>

Loans to banks as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Loans	₩ 6,779,962	₩ 6,208,391
Allowances	<u>(39)</u>	-
Carrying amount	<u>₩ 6,779,923</u>	<u>₩ 6,208,391</u>

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Loans to customers other than banks as of December 31, 2015 and 2014, consist of:

(In millions of Korean won)

	2015		
	Retail	Corporate	Total
Loans in Korean won	₩ 115,924,172	₩ 91,272,391	₩ 207,196,563
Loans in foreign currencies	42,413	2,659,902	2,702,315
Domestic import usance bills	-	3,445,301	3,445,301
Off-shore funding loans	-	584,914	584,914
Call loans	-	198,045	198,045
Bills bought in Korean won	-	5,257	5,257
Bills bought in foreign currencies	-	2,812,217	2,812,217
Guarantee payments under payment guarantee	-	26,129	26,129
Reverse repurchase agreements	-	228,001	228,001
Privately placed bonds	-	785,239	785,239
	<u>115,966,585</u>	<u>102,017,396</u>	<u>217,983,981</u>
Proportion (%)	53.20	46.80	100.00
Allowances	<u>(432,414)</u>	<u>(1,593,426)</u>	<u>(2,025,840)</u>
	<u>₩ 115,534,171</u>	<u>₩ 100,423,970</u>	<u>₩ 215,958,141</u>

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Loans in Korean won	₩ 112,193,456	₩ 84,006,216	₩ 196,199,672
Loans in foreign currencies	50,047	2,574,041	2,624,088
Domestic import usance bills	-	3,693,951	3,693,951
Off-shore funding loans	-	664,794	664,794
Call loans	-	290,243	290,243
Bills bought in Korean won	-	6,678	6,678
Bills bought in foreign currencies	-	1,958,251	1,958,251
Guarantee payments under payment guarantee	-	12,975	12,975
Reverse repurchase agreements	-	1,079,900	1,079,900
Privately placed bonds	-	714,214	714,214
	<u>112,243,503</u>	<u>95,001,263</u>	<u>207,244,766</u>
Proportion (%)	54.16	45.84	100.00
Allowances	<u>(476,974)</u>	<u>(1,450,623)</u>	<u>(1,927,597)</u>
	<u>₩ 111,766,529</u>	<u>₩ 93,550,640</u>	<u>₩ 205,317,169</u>

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Notes to Consolidated Financial Statements
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The changes in deferred loan origination fees and costs for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015				
	Beginning	Increase	Decrease	Other	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 572,108	₩ 422,396	₩ 399,986	₩ -	₩ 594,518
Other origination costs	598	491	619	-	470
	<u>572,706</u>	<u>422,887</u>	<u>400,605</u>	<u>-</u>	<u>594,988</u>
Deferred loan origination fees					
Loans in Korean won	21,993	3,091	9,112	-	15,972
Other origination fees	5,216	1,929	2,707	9	4,447
	<u>27,209</u>	<u>5,020</u>	<u>11,819</u>	<u>9</u>	<u>20,419</u>
	<u>₩ 545,497</u>	<u>₩ 417,867</u>	<u>₩ 388,786</u>	<u>₩ (9)</u>	<u>₩ 574,569</u>

(In millions of Korean won)

	2014				
	Beginning	Increase	Decrease	Other	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 495,619	₩ 355,270	₩ 278,781	₩ -	₩ 572,108
Other origination costs	378	1,100	880	-	598
	<u>495,997</u>	<u>356,370</u>	<u>279,661</u>	<u>-</u>	<u>572,706</u>
Deferred loan origination fees					
Loans in Korean won	25,064	4,579	7,650	-	21,993
Other origination fees	7,671	1,073	3,535	7	5,216
	<u>32,735</u>	<u>5,652</u>	<u>11,185</u>	<u>7</u>	<u>27,209</u>
	<u>₩ 463,262</u>	<u>₩ 350,718</u>	<u>₩ 268,476</u>	<u>₩ (7)</u>	<u>₩ 545,497</u>

Kookmin Bank and Subsidiaries
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11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Retail	Corporate	Total
Beginning	₩ 476,974	₩ 1,450,623	₩ 1,927,597
Written-off	(295,642)	(683,991)	(979,633)
Recoveries from written-off loans	177,075	156,531	333,606
Sale	(4,051)	(45,619)	(49,670)
Other changes	(1,667)	101	(1,566)
Provision ¹	79,725	715,820	795,545
Ending	<u>₩ 432,414</u>	<u>₩ 1,593,465</u>	<u>₩ 2,025,879</u>

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Beginning	₩ 572,286	₩ 1,817,973	₩ 2,390,259
Written-off	(521,422)	(1,068,490)	(1,589,912)
Recoveries from written-off loans	132,296	257,972	390,268
Sale	(6,726)	(61,255)	(67,981)
Other changes	(6,555)	(68,443)	(74,998)
Provision ¹	307,095	572,866	879,961
Ending	<u>₩ 476,974</u>	<u>₩ 1,450,623</u>	<u>₩ 1,927,597</u>

¹ Provision for credit losses in statements of comprehensive income also include provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision for other financial assets (Note 17).

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12. Financial assets at fair value through profit or loss and Financial Investments

The details of financial assets at fair value through profit or loss and financial investments as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Financial assets held for trading		
Debt securities		
Government and public bonds	₩ 1,301,425	₩ 2,035,150
Financial bonds	3,133,610	3,581,035
Corporate bonds	1,438,302	1,204,083
Asset-backed securities	218,496	282,011
Others	195,636	266,504
Equity securities		
Stocks	31,397	60,122
Beneficiary certificates	29,493	40,221
Others	69,060	51,345
	<u>6,417,419</u>	<u>7,520,471</u>
Financial assets designated at fair value through profit or loss		
Derivative linked securities	70,198	-
Total financial assets at fair value through profit or loss	<u>₩ 6,487,617</u>	<u>₩ 7,520,471</u>
Available-for-sale financial assets		
Debt securities		
Government and public bonds	₩ 3,202,350	₩ 4,214,383
Financial bonds	6,376,869	6,259,941
Corporate bonds	3,533,586	4,743,295
Asset-backed securities	5,180,728	1,198,281
Equity securities		
Stocks	1,440,483	1,788,178
Equity investments	41,314	45,578
Beneficiary certificates	1,387,362	884,235
Others	500	500
	<u>21,163,192</u>	<u>19,134,391</u>
Held-to-maturity financial assets		
Debts securities		
Government and public bonds	1,870,481	2,724,716
Financial bonds	2,024,444	1,047,049
Corporate bonds	3,709,968	5,880,095
Asset-backed securities	4,143,901	472,276
	<u>11,748,794</u>	<u>10,124,136</u>
Total financial investments	<u>₩ 32,911,986</u>	<u>₩ 29,258,527</u>

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The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (216,027)	₩ -	₩ (216,027)
	<u>₩ (216,027)</u>	<u>₩ -</u>	<u>₩ (216,027)</u>

(In millions of Korean won)

	2014		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (180,784)	₩ -	₩ (180,784)
	<u>₩ (180,784)</u>	<u>₩ -</u>	<u>₩ (180,784)</u>

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13. Investments in associates

Investments in associates as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund ¹	12.61	₩ 125,462	₩128,275	₩128,275	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	4,580	4,580	Credit information	Korea
UAMCO., Ltd. ¹	17.50	85,050	125,822	129,707	Other finance	Korea
JSC Bank CenterCredit						
Ordinary shares ²	29.56	954,104	(21,990)	-	Banking	Kazakhstan
Preferred shares ²	93.15					
KB12-1 Venture Investment Partnership ³	80.00	40,000	50,670	50,670	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	16,131	15,537	15,169	Investment finance	Korea
United PF 1st Recovery Private Equity Fund ¹	17.73	172,441	187,596	183,117	Other finance	Korea
Shinla Construction Co., Ltd.	20.17	-	(516)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	102,530	101,274	Investment finance	Korea
Incheon Bridge Co., Ltd. ¹	14.99	24,677	(1,879)	-	Operation of highways and related facilities	Korea
KoFC Posco Hanhwa KB shared growth Private Equity Fund	20.00	24,760	23,272	24,760	Investment finance	Korea
Future Planning KB Start-up Creation Fund ³	50.00	12,000	11,860	12,000	Investment finance	Korea
Terra Corporation	24.06	-	37	21	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp. ⁵	22.89	-	(580)	149	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd. ⁵	42.65	-	86	33	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd. ⁵	26.49	-	(47)	-	Manufacture of metal door, windows, shutter and relevant products	Korea
Myeongwon Tech Co., Ltd. ⁵	25.62	-	(447)	-	Manufacture of other automotive parts	Korea
Shinhwa Underwear Co., Ltd. ⁵	26.05	-	(184)	56	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd. ⁵	38.62	-	339	-	Wholesale of paper	Korea
EJADE Co.,Ltd. ⁵	25.67	-	591	-	Wholesale of underwear	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,328	20,328	Investment finance	Korea
		<u>₩1,568,249</u>	<u>₩645,880</u>	<u>₩670,139</u>		

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(In millions of Korean won)

	2014					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund ¹	12.61	₩ 122,623	₩125,119	₩125,119	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	4,222	4,222	Credit information	Korea
UAMCO., Ltd. ¹	17.50	85,050	114,240	121,182	Other finance	Korea
JSC Bank CenterCredit						
Ordinary shares ²	29.56	954,104	36,763	29,279	Banking	Kazakhstan
Preferred shares ²	93.15					
KB12-1 Venture Investment Partnership ³	80.00	28,800	29,119	29,119	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	18,981	15,705	16,675	Investment finance	Korea
United PF 1st Recovery Private Equity Fund ¹	17.72	191,617	203,270	198,089	Other finance	Korea
CH Engineering Co., Ltd. ⁴	41.73	-	178	20	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(502)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,818	98,562	Investment finance	Korea
Incheon Bridge Co., Ltd. ¹	14.99	24,677	(1,716)	-	Operation of highways and related facilities	Korea
KoFC Posco Hanhwa KB shared growth Private Equity Fund	20.00	21,000	18,563	20,663	Investment finance	Korea
Future Planning KB Start-up Creation Fund ³	50.00	4,000	3,825	4,000	Investment finance	Korea
Terra Corporation	24.06	-	(99)	-	Manufacture of fabricated and processed metal products	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,402	20,402	Investment finance	Korea
		<u>₩1,564,476</u>	<u>₩668,907</u>	<u>₩667,332</u>		

¹ As of December 31, 2015 and 2014, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

² The Group determined that ordinary shares and convertible preferred shares issued by JSC Bank CenterCredit are the same in economic substance except for the voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preferred shares held by the Group against the total outstanding ordinary and convertible preferred shares issued by JSC Bank CenterCredit. The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of December 31, 2015 and 2014, amounts to ₩21,863 million and ₩42,945 million, respectively.

³ As of December 31, 2015 and 2014, the Group is a partner in a limited partnership and does not have the right to control over these entities.

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⁴ On June 23, 2015, the Group lost significant influence as the Seoul District Court approved the bankruptcy of CH Engineering Co., Ltd.

⁵ The investment in associates was reclassified from available-for-sale financial assets due to termination of rehabilitation procedures.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)

	2015 ¹						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩1,019,844	₩ 2,198	₩1,021,953	₩1,017,646	₩ 128,275	₩ -	₩128,275
Korea Credit Bureau Co., Ltd.	63,960	13,076	10,000	50,884	4,580	-	4,580
UAMCO., Ltd.	4,068,353	3,331,647	2,430	736,706	125,822	3,885	129,707
JSC Bank CenterCredit	4,672,327	4,710,972	546,794	(38,645)	(21,990)	21,990	-
KB12-1 Venture Investment Partnership	64,190	852	50,000	63,338	50,670	-	50,670
KoFC KBIC Frontier Champ 2010-5(PEF)	51,934	145	53,770	51,789	15,537	(368)	15,169
United PF 1st Recovery Private Equity Fund	1,088,325	30,390	973,258	1,057,935	187,596	(4,479)	183,117
KB GwS Private Securities Investment Trust	490,606	741	425,814	489,865	102,530	(1,256)	101,274
Incheon Bridge Co., Ltd.	696,390	708,926	164,621	(12,536)	(1,879)	1,879	-
KoFC Posco Hanhwa KB shared growth Private Equity Fund	117,473	1,112	123,800	116,361	23,272	1,488	24,760
Future Planning KB Start-up Creation Fund	23,725	6	24,000	23,719	11,860	140	12,000
KB Star office private real estate Investment Trust No.1	218,308	121,749	95,000	96,559	20,328	-	20,328

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(In millions of Korean won)

	2015 ¹				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 50,214	₩ 41,594	₩ -	₩ 41,594	₩ 4,926
Korea Credit Bureau Co., Ltd.	53,184	2,005	1,098	3,103	-
UAMCO., Ltd.	452,759	68,078	(276)	67,802	-
JSC Bank CenterCredit	320,307	(159,985)	452	(159,533)	1
KB12-1 Venture Investment Partnership	14,641	10,362	2,577	12,939	-
KoFC KBIC Frontier Champ 2010-5 (PEF)	10,977	9,292	(331)	8,961	-
United PF 1st Recovery Private Equity Fund	99,712	18,911	-	18,911	-
KB GwS Private Securities Investment Trust	40,454	39,454	-	39,454	5,545
Incheon Bridge Co., Ltd.	87,230	(803)	-	(803)	-
KoFC Posco Hanhwa KB shared growth Private EquityFund	8,915	(3,117)	7,978	4,861	-
Future Planning KB Start-up Creation Fund	1,379	69	-	69	-
KB Star office private real estate Investment Trust No.1	15,990	7,727	-	7,727	1,620

¹ The amounts included in the financial information of the associates are adjusted to reflect adjustments made by the Group, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

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(In millions of Korean won)

2014¹

	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 994,768	₩ 2,158	₩ 999,430	₩ 992,610	₩ 125,119	₩ -	₩125,119
Korea Credit Bureau Co., Ltd.	54,717	7,806	10,000	46,911	4,222	-	4,222
UAMCO., Ltd.	4,357,490	3,688,589	2,430	668,901	114,240	6,942	121,182
JSC Bank CenterCredit	6,278,391	6,156,255	546,794	122,136	36,763	(7,484)	29,279
KB12-1 Venture Investment Partnership	36,978	580	36,000	36,398	29,119	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	52,499	148	63,270	52,351	15,705	970	16,675
United PF 1st Recovery Private Equity Fund	1,187,406	40,240	1,081,400	1,147,166	203,270	(5,181)	198,089
CH Engineering Co., Ltd. ²	1,086	659	158	427	178	(158)	20
KB GwS Private Securities Investment Trust	477,646	738	425,814	476,908	99,818	(1,256)	98,562
Incheon Bridge Co., Ltd.	727,659	739,105	164,621	(11,446)	(1,716)	1,716	-
KoFC Posco Hanhwa KB shared growth Private Equity Fund	94,731	1,917	105,000	92,814	18,563	2,100	20,663
Future Planning KB Start- up Creation Fund	8,040	390	8,000	7,650	3,825	175	4,000
KB Star office private real estate Investment Trust No.1	218,250	121,341	95,000	96,909	20,402	-	20,402

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(In millions of Korean won)

	2014 ¹				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 53,100	₩ 44,616	₩ -	₩ 44,616	₩ 6,280
Korea Credit Bureau Co., Ltd.	46,111	114	-	114	-
UAMCO., Ltd.	548,990	57,438	-	57,438	35,041
JSC Bank CenterCredit	425,506	(22,973)	(26,987)	(49,960)	2
KB06-1 Venture Investment Partnership	570	558	(32)	526	-
KB08-1 Venture Investment Partnership	4,368	3,008	(455)	2,553	4,946
KB12-1 Venture Investment Partnership	3,302	647	230	877	-
KoFC KBIC Frontier Champ 2010-5(PEF)	16,942	957	(3,249)	(2,292)	1,938
United PF 1st Recovery Private Equity Fund	105,369	(1,962)	-	(1,962)	-
CH Engineering Co., Ltd. ²	787	251	-	251	-
KB GwS Private Securities Investment Trust	39,207	38,207	-	38,207	7,222
Incheon Bridge Co., Ltd.	83,578	(8,185)	-	(8,185)	-
KoFC Posco Hanhwa KB shared growth Private Equity Fund	9,228	3,771	(6,337)	(2,566)	-
Future Planning KB Start-up Creation Fund	123	(330)	-	(330)	45
KB Star office private real estate Investment Trust No.1	17,413	8,585	-	8,585	1,752

¹ The amounts included in the financial information of the associates are adjusted to reflect adjustments made by the Group, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

² As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2014 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

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The changes in investments in associates for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehensive income (loss)	Ending
Balhae Infrastructure Fund	₩125,119	₩ 2,839	₩ -	₩ (4,926)	₩ 5,243	₩ -	₩128,275
Korea Credit Bureau Co., Ltd.	4,222	-	-	-	259	99	4,580
UAMCO., Ltd.	121,182	-	-	-	8,525	-	129,707
JSC Bank CenterCredit	29,279	-	-	(1)	(29,278)	-	-
KB12-1 Venture Investment Partnership	29,119	11,200	-	-	8,289	2,062	50,670
KoFC KBIC Frontier Champ 2010-5(PEF)	16,675	-	(2,850)	-	336	1,008	15,169
United PF 1st Recovery Private Equity Fund	198,089	-	(19,028)	-	4,056	-	183,117
KB GwS Private Securities Investment Trust	98,562	-	-	(5,545)	8,257	-	101,274
KoFC Posco Hanhwa KB shared growth Private Equity Fund	20,663	5,960	(2,200)	-	192	145	24,760
Future Planning KB Start-up Creation Fund	4,000	8,000	-	-	-	-	12,000
CH Engineering Co., Ltd.	20	-	-	-	(20)	-	-
Terra Corporation	-	-	-	-	21	-	21
MJT&I Corp.	-	-	-	-	149	-	149
Jungdong Steel Co., Ltd.	-	-	-	-	33	-	33
Shinhwa Underwear Co., Ltd.	-	-	-	-	56	-	56
KB Star office private real estate Investment Trust No.1	20,402	-	-	(1,620)	1,546	-	20,328
	<u>₩667,332</u>	<u>₩ 27,999</u>	<u>₩(24,078)</u>	<u>₩(12,092)</u>	<u>₩ 7,664</u>	<u>₩ 3,314</u>	<u>₩670,139</u>

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(In millions of Korean won)

	2014							
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehensive income (loss)	Impairment	Ending
Balhae Infrastructure Fund	₩ 124,968	₩ 806	₩ -	₩ (6,280)	₩ 5,625	₩ -	₩ -	₩ 125,119
Korea Credit Bureau Co., Ltd.	4,185	-	-	-	37	-	-	4,222
UAMCO., Ltd.	150,826	-	-	(35,041)	5,397	-	-	121,182
JSC Bank CenterCredit	68,110	-	-	(2)	(6,278)	(32,551)	-	29,279
KB06-1 Venture Investment Partnership	861	-	(1,124)	-	279	(16)	-	-
KB08-1 Venture Investment Partnership	9,345	-	(6,100)	(4,946)	2,005	(304)	-	-
KB12-1 Venture Investment Partnership	23,200	5,600	-	-	326	(7)	-	29,119
KoFC KBIC Frontier Champ 2010-5 (PEF)	28,548	30	(9,597)	(1,938)	-	-	(368)	16,675
United PF 1st Recovery Private Equity Fund	197,941	-	-	-	148	-	-	198,089
Kores Co., Ltd.	1,505	-	(1,505)	-	-	-	-	-
KB GwS Private Securities Investment Trust	97,788	-	-	(7,222)	7,996	-	-	98,562
KoFC Posco Hanhwa KB shared growth Private Equity Fund	10,329	9,780	-	-	798	(244)	-	20,663
Future Planning KB Start-up Creation Fund	4,030	-	-	(45)	15	-	-	4,000
CH Engineering Co., Ltd.	-	-	-	-	20	-	-	20
Terra Corporation	4	-	-	-	(4)	-	-	-
KB Star office private real estate Investment Trust No.1	20,347	-	-	(1,752)	1,807	-	-	20,402
	<u>₩ 741,987</u>	<u>₩ 16,216</u>	<u>₩ (18,326)</u>	<u>₩ (57,226)</u>	<u>₩ 18,171</u>	<u>₩ (33,122)</u>	<u>₩ (368)</u>	<u>₩ 667,332</u>

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Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the years ended December 31, 2015 and 2014, are as follows:

	2015		2014	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ 163	₩ 1,879	₩ 1,287	₩ 1,716
Shinla Construction Co., Ltd.	14	148	34	134
Doosung Metal Co., Ltd	49	49	-	-
Myeongwon Tech Co., Ltd	43	43	-	-
Terra Corporation	-	-	115	115
JSC Bank CenterCredit	103,453	103,453	-	-

14. Property and Equipment, and Investment Property

The details of property and equipment as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩1,883,316	₩ -	₩ (1,018)	₩1,882,298
Buildings	1,198,045	(376,214)	(5,859)	815,972
Leasehold improvements	599,703	(551,338)	-	48,365
Equipment and vehicles	1,395,082	(1,245,371)	-	149,711
Construction in-progress	443	-	-	443
Finance lease assets	21,785	(9,202)	-	12,583
	<u>₩5,098,374</u>	<u>₩ (2,182,125)</u>	<u>₩ (6,877)</u>	<u>₩2,909,372</u>

(In millions of Korean won)

	2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩1,884,029	₩ -	₩ -	₩1,884,029
Buildings	1,153,465	(345,704)	(2,117)	805,644
Leasehold improvements	576,099	(528,629)	-	47,470
Equipment and vehicles	1,492,601	(1,362,673)	-	129,928
Construction in-progress	606	-	-	606
Finance lease assets	21,245	(728)	-	20,517
	<u>₩5,128,045</u>	<u>₩ (2,237,734)</u>	<u>₩ (2,117)</u>	<u>₩2,888,194</u>

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The changes in property and equipment for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation	Others	Ending
Land	₩1,884,029	₩ 50	₩ (1,496)	₩ (297)	₩ -	₩ 12	₩1,882,298
Buildings	805,644	568	39,221	(898)	(28,057)	(506)	815,972
Leasehold improvements	47,470	1,091	30,689	(383)	(34,290)	3,788	48,365
Equipment and vehicles	129,928	106,525	-	(679)	(86,133)	70	149,711
Construction in-progress	606	67,362	(67,526)	-	-	1	443
Finance lease assets	20,517	554	-	-	(8,474)	(14)	12,583
	<u>₩2,888,194</u>	<u>₩ 176,150</u>	<u>₩ 888</u>	<u>₩ (2,257)</u>	<u>₩ (156,954)</u>	<u>₩ 3,351</u>	<u>₩2,909,372</u>

(In millions of Korean won)

	2014						
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation	Others	Ending
Land	₩1,914,966	₩ 4,786	₩ (35,698)	₩ -	₩ -	₩ (25)	₩1,884,029
Buildings	820,405	10,226	2,186	-	(27,093)	(80)	805,644
Leasehold improvements	49,970	2	29,628	(138)	(35,248)	3,256	47,470
Equipment and vehicles	109,184	88,570	1,946	(313)	(70,393)	934	129,928
Construction in-progress	-	54,859	(54,253)	-	-	-	606
Finance lease assets	8,900	29,152	(1,946)	-	(15,589)	-	20,517
	<u>₩2,903,425</u>	<u>₩ 187,595</u>	<u>₩ (58,137)</u>	<u>₩ (451)</u>	<u>₩ (148,323)</u>	<u>₩ 4,085</u>	<u>₩2,888,194</u>

¹ Including transfers from investment property and assets held for sale.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015				
	Beginning	Impairment	Reversal	Others	Ending
₩	(2,117)	₩ (557)	₩ -	₩ (4,203)	₩ (6,877)

(In millions of Korean won)

	2014				
	Beginning	Impairment	Reversal	Others	Ending
₩	(2,117)	₩ -	₩ -	₩ -	₩ (2,117)

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The details of investment property as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 255,806	₩ -	₩255,806
Buildings	173,131	(15,758)	157,373
	<u>₩ 428,937</u>	<u>₩ (15,758)</u>	<u>₩413,179</u>

(In millions of Korean won)

	2014		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 253,533	₩ -	₩ 253,533
Buildings	167,931	(12,198)	155,733
	<u>₩ 421,464</u>	<u>₩ (12,198)</u>	<u>₩ 409,266</u>

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2015, are as follows:

(In millions of Korean won)

	Fair Value	Valuation technique	Inputs
Land and Buildings	₩ 447,627	Cost approach value	- Price per square meter - Replacement cost

As of December 31, 2015 and 2014, fair values of the investment properties amount to ₩447,627 million and ₩409,647 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2015 and 2014, amounts to ₩22,252 million and ₩7,167 million, respectively.

The changes in investment property for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 253,533	₩ 21	₩ 2,252	₩ -	₩ 255,806
Buildings	155,733	4,269	1,040	(3,669)	157,373
	<u>₩ 409,266</u>	<u>₩ 4,290</u>	<u>₩ 3,292</u>	<u>₩ (3,669)</u>	<u>₩ 413,179</u>

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	2014				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 122,190	₩ 132,923	₩ (1,580)	₩ -	₩ 253,533
Buildings	78,815	79,072	147	(2,301)	155,733
	<u>₩ 201,005</u>	<u>₩ 211,995</u>	<u>₩ (1,433)</u>	<u>₩ (2,301)</u>	<u>₩ 409,266</u>

15. Intangible Assets

The details of intangible assets as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	763,929	(641,350)	(7,470)	115,109
	<u>₩ 830,419</u>	<u>₩ (641,350)</u>	<u>₩ (7,470)</u>	<u>₩ 181,599</u>

(In millions of Korean won)

	2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	714,034	(568,100)	(5,529)	140,405
	<u>₩ 780,524</u>	<u>₩ (568,100)</u>	<u>₩ (5,529)</u>	<u>₩ 206,895</u>

The details of goodwill as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		2014	
	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Housing & Commercial Bank	₩ 65,288	₩ 65,288	₩ 65,288	₩ 65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	<u>₩ 66,490</u>	<u>₩ 66,490</u>	<u>₩ 66,490</u>	<u>₩ 66,490</u>

There is no change in goodwill for the years ended December 31, 2015 and 2014.

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The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2015, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank		KB Cambodia Bank	Total
	Retail Banking	Corporate Banking		
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	5,008,711	2,171,276	543	7,180,530
Discount rate (%)	15.30	15.60	30.90	
Permanent growth rate (%)	2.00	2.00	2.00	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of this amount, the amounts of ₩49,315 million and ₩15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units, to which goodwill has been allocated, is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 2.0% for Retail Banking, Corporate Banking and KB Cambodia Bank every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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The details of intangible assets, excluding goodwill, as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,357	₩ (1,142)	₩ -	₩ 215
Software	610,503	(565,519)	-	44,984
Other intangible assets	127,464	(70,084)	(7,470)	49,910
Finance leases assets	24,605	(4,605)	-	20,000
	<u>₩ 763,929</u>	<u>₩ (641,350)</u>	<u>₩ (7,470)</u>	<u>₩ 115,109</u>

(In millions of Korean won)

	2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,295	₩ (1,006)	₩ -	₩ 289
Software	560,121	(505,998)	-	54,123
Other intangible assets	128,644	(60,743)	(5,529)	62,372
Finance leases assets	23,974	(353)	-	23,621
	<u>₩ 714,034</u>	<u>₩ (568,100)</u>	<u>₩ (5,529)</u>	<u>₩ 140,405</u>

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015						
	Beginning	Acquisition	Transfer	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 289	₩ 38	₩ -	₩ -	₩ (120)	₩ 8	₩ 215
Software	54,123	21,026	-	-	(30,201)	36	44,984
Other intangible assets	62,372	5,139	-	(3,384)	(9,270)	(4,947)	49,910
Finance leases assets	23,621	647	-	-	(4,253)	(15)	20,000
	<u>₩140,405</u>	<u>₩ 26,850</u>	<u>₩ -</u>	<u>₩ (3,384)</u>	<u>₩ (43,844)</u>	<u>₩ (4,918)</u>	<u>₩115,109</u>

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	2014							
	Beginning	Acquisition	Transfer	Disposal	Amortization	Others	Ending	
Industrial property rights	₩ 364	₩ 36	₩ -	₩ -	₩ (117)	₩ 6	₩ 289	
Software	78,518	16,370	4,528	-	(44,491)	(802)	54,123	
Other intangible assets	71,156	1,673	-	(2,577)	(8,252)	372	62,372	
Finance leases assets	8,056	28,208	(4,528)	-	(8,115)	-	23,621	
	<u>₩ 158,094</u>	<u>₩ 46,287</u>	<u>₩ -</u>	<u>₩ (2,577)</u>	<u>₩ (60,975)</u>	<u>₩ (424)</u>	<u>₩ 140,405</u>	

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015				
	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on other intangible assets	₩(5,529)	₩(5,531)	₩ 6	₩3,584	₩(7,470)

(In millions of Korean won)

	2014				
	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on other intangible assets	₩ (5,492)	₩ (128)	₩ 321	₩(230)	₩(5,529)

The changes in emissions rights for year ended December 31, 2015, are as follows:

(KAU, in millions of Korean won)

	Applicable under 2015		Applicable under 2016		Applicable under 2017		Total	
	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount
Beginning	-	₩ -	-	₩ -	-	₩ -	-	₩ -
Free of charges	116,799	-	112,137	-	109,140	-	338,076	-
Ending	<u>116,799</u>	<u>₩ -</u>	<u>112,137</u>	<u>₩ -</u>	<u>109,140</u>	<u>₩ -</u>	<u>338,076</u>	<u>₩ -</u>

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16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Assets	Liabilities	Net amount
Other provisions	₩ 68,633	₩ -	₩ 68,633
Impairment losses on property and equipment	5,019	-	5,019
Interest on equity index-linked deposits	69	-	69
Share-based payments	8,168	-	8,168
Provisions for guarantees	38,225	-	38,225
Gains on valuation of derivatives	-	(30,391)	(30,391)
Present value discount	-	(25)	(25)
Losses on fair value hedged	2,876	-	2,876
Accrued interest	-	(43,414)	(43,414)
Deferred loan origination fees and costs	-	(120,375)	(120,375)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	5,614	(82,542)	(76,928)
Others	540,128	(276,241)	263,887
	668,732	(825,684)	(156,952)
Offsetting of deferred income tax assets and liabilities	(660,411)	660,411	-
Total	₩ 8,321	₩(165,273)	₩ (156,952)

(In millions of Korean won)

	2014		
	Assets	Liabilities	Net amount
Other provisions	₩ 65,033	₩ -	₩ 65,033
Impairment losses on property and equipment	5,412	-	5,412
Interest on equity index-linked deposits	183	-	183
Share-based payments	7,806	-	7,806
Provisions for guarantees	50,115	-	50,115
Gains on valuation of derivatives	-	(51,167)	(51,167)
Present value discount	-	(34)	(34)
Losses on fair value hedged	12,834	-	12,834
Accrued interest	-	(48,019)	(48,019)
Deferred loan origination fees and costs	-	(110,160)	(110,160)
Gains on revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	6,336	(71,565)	(65,229)
Others	562,200	(261,322)	300,878
	709,919	(814,963)	(105,044)
Offsetting of deferred income tax assets and liabilities	(704,605)	704,605	-
Total	₩ 5,314	₩(110,358)	₩ (105,044)

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Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩65,873 million associated with investments in subsidiaries and associates as of December 31, 2015, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2015.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩543,711 million associated with investments in subsidiaries and associates as of December 31, 2015, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩67 million, ₩80,204 million and ₩21,393 million associated with other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2015, due to the uncertainty that these will be realized in the future.

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The changes in cumulative temporary differences for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Losses from fair value hedge	₩ 53,033	₩ 53,033	₩ 11,882	₩ 11,882
Other provisions	268,931	268,931	283,672	283,672
Impairment losses on property and equipment	22,363	22,363	20,738	20,738
Interest on equity index-linked deposits	758	758	287	287
Share-based payments	32,256	32,256	33,754	33,754
Provisions for guarantees	207,087	207,087	157,954	157,954
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	579,173	12,264	-	566,909
Others	2,341,471	1,504,231	1,416,105	2,253,345
	<u>3,585,276</u>	<u>₩2,100,923</u>	<u>₩1,924,392</u>	<u>3,408,745</u>
Unrecognized deferred income tax assets				
Other provisions	199			67
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	560,861			543,711
Others	18,185			21,393
	<u>2,925,827</u>			<u>2,763,370</u>
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	<u>₩ 709,919</u>			<u>₩ 668,732</u>

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	2015			
	Beginning	Decrease	Increase	Ending
Taxable temporary differences				
Accrued interest	₩ (198,424)	₩ (158,989)	₩ (139,959)	₩ (179,394)
Deferred loan origination fees and costs	(455,207)	(455,207)	(497,418)	(497,418)
Gains on valuation of derivatives	(211,434)	(211,434)	(125,582)	(125,582)
Present value discount	(140)	(140)	(104)	(104)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	-	-	(1,126,842)
Investment in subsidiaries and associates	(327,356)	(20)	(80,098)	(407,434)
Others	(1,079,846)	(221,023)	(282,670)	(1,141,493)
	<u>(3,464,537)</u>	<u>₩(1,046,813)</u>	<u>₩(1,125,831)</u>	<u>(3,543,555)</u>
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(39,024)			(65,873)
	<u>(3,360,225)</u>			<u>(3,412,394)</u>
Tax rate (%)	<u>24.20</u>			<u>24.20</u>
Total deferred income tax liabilities from deductible temporary differences	<u>₩ (814,963)</u>			<u>₩ (825,684)</u>

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	2014			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Losses from fair value hedge	₩ 68,884	₩ 68,884	₩ 53,033	₩ 53,033
Other provisions	323,781	323,781	268,931	268,931
Impairment losses on property and equipment	11,873	11,873	22,363	22,363
Interest on equity index-linked deposits	1,407	1,325	676	758
Share-based payments	34,053	34,053	32,256	32,256
Provisions for guarantees	208,517	208,517	207,087	207,087
Present value discount	804	804	-	-
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	882,729	308,052	4,496	579,173
Others	<u>1,737,460</u>	<u>1,017,320</u>	<u>1,621,331</u>	<u>2,341,471</u>
	<u>3,349,712</u>	<u>₩1,974,609</u>	<u>₩2,210,173</u>	<u>3,585,276</u>
Unrecognized deferred income tax assets				
Other provisions	250			199
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	595,196			560,861
Others	<u>13,376</u>			<u>18,185</u>
	2,660,686			2,925,827
Tax rate (%)	<u>24.20</u>			<u>24.20</u>
Total deferred income tax assets from deductible temporary differences	<u>₩ 644,023</u>			<u>₩ 709,919</u>

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	2014			
	Beginning	Decrease	Increase	Ending
Taxable temporary differences				
Accrued interest	₩ (249,286)	₩ (217,151)	₩ (166,289)	₩ (198,424)
Deferred loan origination fees and costs	(388,266)	(388,266)	(455,207)	(455,207)
Gains on valuation of derivatives	(54,531)	(54,531)	(211,434)	(211,434)
Present value discount	-	-	(140)	(140)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,131,429)	(4,587)	-	(1,126,842)
Investment in subsidiaries and associates	(365,424)	(57,931)	(19,863)	(327,356)
Others	(1,087,088)	(376,397)	(369,155)	(1,079,846)
	<u>(3,341,312)</u>	<u>₩(1,098,863)</u>	<u>₩(1,222,088)</u>	<u>(3,464,537)</u>
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(118,748)			(39,024)
	<u>(3,157,276)</u>			<u>(3,360,225)</u>
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from deductible temporary differences	<u>₩ (763,944)</u>			<u>₩ (814,963)</u>

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17. Other Assets

The details of other assets as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015	2014
Other financial assets		
Other receivables	₩ 3,165,861	₩ 2,663,441
Accrued income	692,744	754,702
Guarantee deposits	1,160,950	1,291,907
Domestic exchange settlement debits	2,138,401	2,086,792
Others	17,743	20,924
Allowances for loan losses	(286,915)	(288,245)
Present value discount	(1,057)	(489)
	<u>6,887,727</u>	<u>6,529,032</u>
Other non-financial assets		
Other receivables	42,356	1,187
Prepaid expenses	141,758	182,936
Guarantee deposits	3,656	3,607
Others	104,141	34,925
Allowances on other assets	(23,128)	(23,174)
	<u>268,783</u>	<u>199,481</u>
	<u>₩ 7,156,510</u>	<u>₩ 6,728,513</u>

The changes in allowances for loan losses on other assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 288,245	₩ 23,174	₩ 311,419
Provision (reversal)	(883)	838	(45)
Written-off	(2,365)	(884)	(3,249)
Others	1,918	-	1,918
Ending	<u>₩ 286,915</u>	<u>₩ 23,128</u>	<u>₩ 310,043</u>

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	2014		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 527,114	₩ 16,146	₩ 543,260
Provision (reversal)	27,415	4,065	31,480
Written-off	(290,329)	(2,435)	(292,764)
Others	24,045	5,398	29,443
Ending	<u>₩ 288,245</u>	<u>₩ 23,174</u>	<u>₩ 311,419</u>

18. Assets held for sale

The details of assets held for sale as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			
	Acquisition cost¹	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 35,996	₩ (8,531)	₩ 27,465	₩ 28,658
Buildings	11,660	(5,330)	6,330	6,789
	<u>₩ 47,656</u>	<u>₩ (13,861)</u>	<u>₩ 33,795</u>	<u>₩ 35,447</u>

(In millions of Korean won)

	2014			
	Acquisition cost¹	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 47,418	₩ (9,442)	₩ 37,976	₩ 40,530
Buildings	26,862	(10,804)	16,058	17,429
	<u>₩ 74,280</u>	<u>₩ (20,246)</u>	<u>₩ 54,034</u>	<u>₩ 57,959</u>

¹ Acquisition cost of buildings held for sale is net of accumulated depreciation.

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The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2015, are as follows:

(In millions of Korean won)

		2015			
	Fair value	Valuation technique ¹	Unobservable inputs ²	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
			Adjustment index	0.10~1.16	Fair value increases as the adjustment index rises
Land and buildings	₩35,986	Market comparison approach model	Adjustment ratio	-20.00~0.00	Fair value decreases as the absolute value of adjustment ratio rises

¹ The appraisal value is adjusted by the adjustment ratio in the event the public sale is unsuccessful.

² Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

2015				
Beginning	Provision	Reversal	Others	Ending
₩ (20,246)	₩ (2,110)	₩ 399	₩ 8,096	₩ (13,861)

(In millions of Korean won)

2014				
Beginning	Provision	Reversal	Others	Ending
₩ (10,087)	₩ (15,943)	₩ -	₩ 5,784	₩ (20,246)

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As of December 31, 2015, assets held for sale consist of 10 real estates of closed offices, which the management of the Group was committed to sell, but not yet sold as of December 31, 2015. As of the report date, two out of the above assets held for sale are under a sale negotiation and the remaining eight assets are also being actively marketed.

19. Deposits

The details of deposits as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Demand deposits		
Demand deposits in Korean won	₩ 91,959,685	₩ 75,889,591
Demand deposits in foreign currencies	4,122,010	3,017,438
	<u>96,081,695</u>	<u>78,907,029</u>
Time deposits		
Time deposits in Korean won	120,035,078	128,637,365
Fair value adjustments on fair value hedged time deposits in Korean won	(201)	(958)
	<u>120,034,877</u>	<u>128,636,407</u>
Time deposits in foreign currencies	3,623,160	2,484,949
Fair value adjustments on fair value hedged time deposits in foreign currencies	(17,672)	-
	<u>3,605,488</u>	<u>2,484,949</u>
	<u>123,640,365</u>	<u>131,121,356</u>
Certificates of deposits	4,611,447	1,583,047
Total deposits	<u>₩224,333,507</u>	<u>₩211,611,432</u>

20. Debts

The details of debts as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Borrowings	₩ 11,684,566	₩ 11,271,860
Bonds sold under repurchase agreements and others	596,343	203,944
Call money	2,010,906	2,821,656
	<u>₩ 14,291,815</u>	<u>₩ 14,297,460</u>

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The details of borrowings as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		Lenders	Annual interest rate (%)	2015	2014
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50~0.75	₩ 1,421,375	₩ 1,002,796
	Borrowings from the government	KEMCO and others	0.00~3.00	1,156,670	611,378
	Borrowings from banking institutions	Industrial Bank of Korea	1.18	180	874
	Borrowings from non-banking financial institutions	Korea Development Bank	0.20~2.70	284,369	187,452
	Other borrowings	Korea Gas Safety Corporation and others	0.00~4.35	2,830,933	3,399,780
				<u>5,693,527</u>	<u>5,202,280</u>
Borrowings in foreign currencies	Due to banks	JPMorgan Chase Bank.NA and others	-	9,884	3,313
	Borrowings from banking institutions	Commerzbank and others	0.08~1.30	3,530,561	3,522,159
	Borrowings from other financial institutions	Export Import Bank of Korea and others	0.86~1.78	212,507	34,460
	Other borrowings	Standard Chartered Bank and others	-	2,238,087	2,509,648
				<u>5,991,039</u>	<u>6,069,580</u>
				<u>₩ 11,684,566</u>	<u>₩ 11,271,860</u>

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The details of bonds sold under repurchase agreements and others as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2015	2014
Bonds sold under repurchase agreements	Individuals, groups, corporations	1.46~3.84	₩ 568,486	₩ 148,869
Bills sold	Individuals, corporations	0.80~1.50	27,857	55,075
			<u>₩ 596,343</u>	<u>₩ 203,944</u>

The details of call money as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2015	2014
Call money in Korean won	KEB Hana Bank and others	1.33~1.48	₩ 926,400	₩ 1,822,000
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.24~5.00	1,084,506	999,656
			<u>₩ 2,010,906</u>	<u>₩ 2,821,656</u>

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21. Debentures

The details of debentures as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	Annual interest rate (%)	2015	2014
Debentures in Korean won			
Structured debentures	0.21~8.62	₩ 909,788	₩ 1,239,238
Subordinated fixed rate debentures in Korean won	3.08~7.51	4,471,829	4,566,124
Fixed rate debentures in Korean won	1.68~4.09	6,750,523	6,390,553
Floating rate debentures in Korean won	-	-	150,000
		<u>12,132,140</u>	<u>12,345,915</u>
Fair value adjustments on fair value hedged debentures in Korean won		40,170	53,915
Discount on debentures in Korean won		<u>(6,412)</u>	<u>(38,980)</u>
		<u>12,165,898</u>	<u>12,360,850</u>
Debentures in foreign currencies			
Floating rate debentures	0.07~1.57	1,477,524	1,318,415
Fixed rate debentures	0.98~3.63	2,325,537	1,578,980
		<u>3,803,061</u>	<u>2,897,395</u>
Fair value adjustments on fair value hedged debentures in foreign currencies		(10,415)	75
Discount on debentures in foreign currencies		<u>(9,410)</u>	<u>(7,856)</u>
		<u>3,783,236</u>	<u>2,889,614</u>
		<u>₩15,949,134</u>	<u>₩15,250,464</u>

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The changes in debentures based on face value for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015				
	Beginning	Issues	Repayments	Others	Ending
Debentures in Korean won					
Structured debentures	₩ 1,239,238	₩ 120,000	₩ (449,450)	₩ -	₩ 909,788
Subordinated fixed rate debentures	4,566,124	-	(94,295)	-	4,471,829
Fixed rate debentures	6,390,553	4,080,000	(3,720,030)	-	6,750,523
Floating rate debentures	150,000	-	(150,000)	-	-
	<u>12,345,915</u>	<u>4,200,000</u>	<u>(4,413,775)</u>	<u>-</u>	<u>12,132,140</u>
Debentures in foreign currencies					
Floating rate debentures	1,318,415	179,565	(111,939)	91,483	1,477,524
Fixed rate debentures	1,578,980	1,013,959	(378,577)	111,175	2,325,537
	<u>2,897,395</u>	<u>1,193,524</u>	<u>(490,516)</u>	<u>202,658</u>	<u>3,803,061</u>
	<u>₩15,243,310</u>	<u>₩5,393,524</u>	<u>₩(4,904,291)</u>	<u>₩202,658</u>	<u>₩15,935,201</u>

(In millions of Korean won)

	2014				
	Beginning	Issues	Repayments	Others	Ending
Debentures in Korean won					
Structured debentures	₩ 1,499,238	₩ 80,000	₩ (340,000)	₩ -	₩ 1,239,238
Subordinated fixed rate debentures	8,648,474	-	(4,082,350)	-	4,566,124
Fixed rate debentures	2,941,142	4,670,000	(1,220,589)	-	6,390,553
Floating rate debentures	102,858	353,200	(306,058)	-	150,000
	<u>13,191,712</u>	<u>5,103,200</u>	<u>(5,948,997)</u>	<u>-</u>	<u>12,345,915</u>
Debentures in foreign currencies					
Floating rate debentures	826,770	754,003	(319,157)	56,799	1,318,415
Fixed rate debentures	2,335,059	803,503	(1,633,588)	74,006	1,578,980
	<u>3,161,829</u>	<u>1,557,506</u>	<u>(1,952,745)</u>	<u>130,805</u>	<u>2,897,395</u>
	<u>₩16,353,541</u>	<u>₩6,660,706</u>	<u>₩(7,901,742)</u>	<u>₩130,805</u>	<u>₩15,243,310</u>

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22. Provisions

The details of provisions as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015	2014
Provisions for unused loan commitments	₩ 126,282	₩ 125,345
Provisions for acceptances and guarantees	158,454	207,927
Provisions for asset retirement obligation	70,493	68,999
Others	95,169	81,104
	<u>₩ 450,398</u>	<u>₩ 483,375</u>

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 125,345	₩ 207,927	₩ 333,272
Effects of changes in foreign exchange rate	789	4,808	5,597
Provision(Reversal)	148	(54,281)	(54,133)
Ending	<u>₩ 126,282</u>	<u>₩ 158,454</u>	<u>₩ 284,736</u>

<i>(In millions of Korean won)</i>	2014		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 139,997	₩ 209,110	₩ 349,107
Effects of changes in foreign exchange rate	547	3,359	3,906
Reversal	(15,199)	(4,542)	(19,741)
Ending	<u>₩ 125,345</u>	<u>₩ 207,927</u>	<u>₩ 333,272</u>

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The changes in provisions for asset retirement obligation for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Beginning	₩ 68,999	₩ 67,995
Provision	1,941	2,722
Reversal	(363)	-
Used	(2,779)	(4,324)
Unwinding of discount	1,941	2,561
Effects of changes in discount rate	754	45
Ending	<u>₩ 70,493</u>	<u>₩ 68,999</u>

Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The changes in other provisions for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>						
	<u>Membership rewards program</u>	<u>Dormant accounts</u>	<u>Litigations</u>	<u>Financial guarantee liabilities</u>	<u>Greenhouse Gas Emission liabilities¹</u>	<u>Others</u>	<u>Total</u>
Beginning	₩ 76	₩ 33,996	₩ 2,622	₩ 2,718	₩ -	₩ 41,692	₩ 81,104
Provision	159	27,056	9,226	1,091	69	37,860	75,461
Used and Others	(136)	(19,961)	(278)	-	-	(41,021)	(61,396)
Ending	<u>₩ 99</u>	<u>₩ 41,091</u>	<u>₩ 11,570</u>	<u>₩ 3,809</u>	<u>₩ 69</u>	<u>₩ 38,531</u>	<u>₩ 95,169</u>

¹ As of December 31, 2015, the estimated greenhouse gas emission is 122,542 tons.

(In millions of Korean won)

	<u>2014</u>						
	<u>Membership rewards program</u>	<u>Dormant accounts</u>	<u>Litigations</u>	<u>Financial guarantee liabilities</u>	<u>Greenhouse Gas Emission liabilities</u>	<u>Others</u>	<u>Total</u>
Beginning	₩ 69	₩ 16,838	₩ 3,257	₩ 2,699	₩ -	₩ 99,772	₩ 122,635
Provision (Reversal)	164	49,040	(632)	19	-	(892)	47,699
Used and Others	(157)	(31,882)	(3)	-	-	(57,188)	(89,230)
Ending	<u>₩ 76</u>	<u>₩ 33,996</u>	<u>₩ 2,622</u>	<u>₩ 2,718</u>	<u>₩ -</u>	<u>₩ 41,692</u>	<u>₩ 81,104</u>

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23. Net defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated in accordance with actuarial valuation methods. Data such as discount rates, future salary increase rates, and mortality rates based on market data and historical data are used. Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends.

The changes in the net defined benefit liabilities for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 1,150,368	₩(1,092,875)	₩ 57,493
Current service cost	162,459	-	162,459
Interest cost (income)	34,147	(32,433)	1,714
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	(1,879)	-	(1,879)
-Actuarial gain arising from changes in financial assumptions	(508)	-	(508)
-Actuarial loss arising from experience adjustment	10,631	-	10,631
-Return on plan assets (excluding amounts included in interest income)	-	10,877	10,877
Contributions	-	(180,000)	(180,000)
Payments from plans (benefit payments)	(88,266)	88,266	-
Payments from the Group	(5,152)	-	(5,152)
Transfer in	1,993	(1,981)	12
Transfer out	(3,140)	3,140	-
Effects of changes in foreign exchange rate	22	-	22
Ending	<u>₩ 1,260,675</u>	<u>₩(1,205,006)</u>	<u>₩ 55,669</u>

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(In millions of Korean won)

	2014		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 905,999	₩ (854,474)	₩ 51,525
Current service cost	146,118	-	146,118
Interest cost (income)	35,833	(33,788)	2,045
Remeasurements :			
-Actuarial gain arising from changes in financial assumptions	95,786	-	95,786
-Actuarial loss arising from experience adjustment	3,003	-	3,003
-Return on plan assets (excluding amounts included in interest income)	-	11,505	11,505
Contributions	-	(249,500)	(249,500)
Payments from plans (benefit payments)	(32,908)	32,908	-
Payments from the Group	(2,961)	-	(2,961)
Transfer in	1,352	(1,352)	-
Transfer out	(1,826)	1,826	-
Effects of changes in foreign exchange rate	(28)	-	(28)
Ending	<u>₩ 1,150,368</u>	<u>₩(1,092,875)</u>	<u>₩ 57,493</u>

The details of the net defined benefit liabilities as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Present value of defined benefit obligation	₩ 1,260,675	₩ 1,150,368
Fair value of plan assets	<u>(1,205,006)</u>	<u>(1,092,875)</u>
Net defined benefit liabilities	<u>₩ 55,669</u>	<u>₩ 57,493</u>

The details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Current service cost	₩ 162,459	₩ 146,118
Interest expenses of net defined benefit liabilities	<u>1,714</u>	<u>2,045</u>
Total	<u>₩ 164,173</u>	<u>₩ 148,163</u>

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Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015	2014
Remeasurements:		
- Actuarial loss arising from changes in demographic assumptions	₩ 1,879	₩ -
-Actuarial loss arising from changes in financial assumptions	508	(95,786)
-Actuarial loss arising from experience adjustment	(10,631)	(3,003)
-Return on plan assets (excluding amounts included in interest income)	(10,877)	(11,505)
Income tax effects	4,627	26,691
Remeasurements after income tax	<u>₩(14,494)</u>	<u>₩(83,603)</u>

The details of fair value of plan assets as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,205,006	₩1,205,006
	<u>₩ -</u>	<u>₩ 1,205,006</u>	<u>₩1,205,006</u>

<i>(In millions of Korean won)</i>	2014		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,073,723	₩1,073,723
Others	-	19,152	19,152
	<u>₩ -</u>	<u>₩ 1,092,875</u>	<u>₩1,092,875</u>

Key actuarial assumptions used as of December 31, 2015 and 2014, are as follows:

	Ratio (%)	
	2015	2014
Discount rate	2.50	3.00
Salary increase rate	2.40~4.00	1.83~4.55
Turnover	1.00	0.70

Mortality assumptions are based on the 8th experience-based mortality table of Korea Insurance Development Institute of 2015.

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The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2015, is as follows:

	Changes in principal assumption	Effect on defined benefit obligation	
		Increase in principal assumption	Decrease in principal assumption
Discount rate	0.5% p	4.14% decrease	4.43% increase
Salary increase rate	0.5% p	4.06% increase	3.84% decrease
Turnover	0.5% p	0.37% decrease	0.39% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions is calculated using the projected unit credit method which is used to calculate the defined benefit obligation.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2015, is as follows:

(In millions of Korean won)

	<u>Less than 1 year</u>		<u>Between 1 and 2 years</u>		<u>Between 2 and 5 years</u>		<u>Between 5 and 10 years</u>		<u>Over 10 years</u>		<u>Total</u>	
Pension benefits	₩	32,209	₩	79,700	₩	373,180	₩	825,913	₩2,701,387	₩4,012,389		

The weighted average duration of the defined benefit obligations is 8.8 years.

Expected contributions to plan assets for the period after December 31, 2015, are estimated to be approximately ₩160,000 million.

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24. Other liabilities

The details of other liabilities as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Other financial liabilities		
Other payables	₩ 3,016,175	₩2,570,369
Prepaid card and debit cards	2,107	1,760
Accrued expenses	2,538,380	2,963,749
Financial guarantee liabilities	12,355	12,956
Deposits for letter of guarantees and others	211,388	142,571
Domestic exchange settlement credits	118,599	118,550
Foreign exchanges settlement credits	53,367	69,440
Borrowings from other business accounts	47,707	40,383
Payables to trust accounts	2,791,404	2,548,578
Liabilities incurred from agency relationship	488,325	505,664
Account for agency businesses	321,557	340,061
Others	10,897	30,766
	<u>9,612,261</u>	<u>9,344,847</u>
Other non-financial liabilities		
Other payables	68,449	223,625
Unearned revenue	39,815	42,414
Accrued expenses	176,643	142,385
Withholding taxes	108,225	97,976
Others	64,198	33,028
	<u>457,330</u>	<u>539,428</u>
	<u>₩10,069,591</u>	<u>₩9,884,275</u>

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Bank as of December 31, 2015 and 2014, are as follows:

	<u>Ordinary shares</u>	
	<u>2015</u>	<u>2014</u>
Number of shares authorized	1,000,000,000	1,000,000,000
Face value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock ¹	₩ 2,021,896	₩ 2,021,896

¹ In millions of Korean won.

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25.2 Capital surplus

The details of capital surplus as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Paid-in capital in excess of face value	₩ 4,604,417	₩ 4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,389
	<u>₩ 5,219,704</u>	<u>₩ 5,219,704</u>

The gain on business combination is a gain from a bargain purchase related to the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Remeasurements of net defined benefit liabilities	₩ (102,182)	₩ (87,688)
Currency translation differences	32,993	(12,149)
Gain on valuation of available-for-sale financial assets	682,818	760,530
Losses on valuation of equity method investments	(87,346)	(89,882)
Losses on hedges of a net investment in a foreign operation	(25,476)	-
	<u>₩ 500,807</u>	<u>₩ 570,811</u>

25.4 Retained earnings

Retained earnings as of December 31, 2015 and 2014, consist of:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Legal reserves	₩ 2,033,463	₩ 1,997,380
Regulatory reserve for credit losses	1,867,761	1,690,979
Voluntary reserves	9,893,452	8,946,874
Retained earnings before appropriation	1,210,128	1,492,829
	<u>₩15,004,804</u>	<u>₩14,128,062</u>

With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate

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statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 29.1 through 29.2 of Regulation on Supervision of Banking Business.

The details of the regulatory reserve for credit losses as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Beginning	₩1,867,761	₩1,690,979
Amounts estimated to be appropriated	<u>(32,646)</u>	<u>176,782</u>
Ending	<u>₩1,835,115</u>	<u>₩1,867,761</u>

The adjustments to the regulatory reserve for credit losses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Provision (reversal) of regulatory reserve for credit losses	₩ (32,646)	₩176,782
Adjusted profit after provision of regulatory reserve for credit losses ¹	1,139,884	852,259

¹ Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision (reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

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26. Interest income and expense

The details of interest income and expense for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Interest income		
Due from financial institutions	₩ 112,024	₩ 142,644
Loans	7,380,610	8,495,967
Financial investments		
Available-for-sale financial assets	386,427	469,173
Held-to-maturity financial assets	392,658	452,652
Others	116,663	142,191
	<u>8,388,382</u>	<u>9,702,627</u>
Interest expenses		
Deposits	3,030,091	3,842,482
Debts	167,785	228,146
Debentures	418,979	594,341
Others	59,780	66,212
	<u>3,676,635</u>	<u>4,731,181</u>
Net interest income	<u>₩ 4,711,747</u>	<u>₩ 4,971,446</u>

Interest income recognized on impaired loans is ₩51,218 million (2014: ₩93,935 million) for the year ended December 31, 2015.

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27. Fee and commission income and expense

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Fee and commission income		
Banking activity fees	₩ 173,442	₩ 171,909
Lending activity fees	87,202	73,605
Agent activity fees	406,123	372,323
Trust and other fiduciary fees	241,246	203,426
Guarantee fees	29,924	29,283
Credit card related fees	1,420	1,612
Foreign currency related fees	97,148	96,020
Security activity commissions	160,211	145,718
Other business account commission on consignment	30,525	25,311
Debit card related fees and commissions	680	637
Others	144,133	151,494
	<u>1,372,054</u>	<u>1,271,338</u>
Fee and commission expense		
Trading activity related fees ¹	10,531	8,872
Lending activity fees	21,225	18,548
Credit card related fees	1,096	1,149
Contributions to external institutions	22,318	18,614
Outsourcing related fees	62,475	55,508
Foreign currency related fees	12,286	11,452
Management fees of written-off loans	12,667	9,853
Others	73,083	69,297
	<u>215,681</u>	<u>193,293</u>
Net fee and commission income	<u>₩ 1,156,373</u>	<u>₩ 1,078,045</u>

¹ Fees from financial assets/liabilities at fair value through profit or loss.

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28. Net gains or losses from financial assets/liabilities at fair value through profit or loss

28.1 Net gains or losses from financial instruments held for trading

Net gains or losses from financial assets/liabilities at fair value through profit or loss are composed of gains or losses from financial instruments held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	2014
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 224,641	₩ 298,762
Equity securities	11,487	12,314
	<u>236,128</u>	<u>311,076</u>
Derivatives held for trading		
Interest rate	976,180	1,313,083
Currency	2,287,541	1,886,636
Stock or index	13,727	44,775
Other	803	801
	<u>3,278,251</u>	<u>3,245,295</u>
Other financial instruments	<u>2,166</u>	<u>47</u>
	<u>3,516,545</u>	<u>3,556,418</u>
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	34,713	19,553
Equity securities	9,237	34,118
	<u>43,950</u>	<u>53,671</u>
Derivatives held for trading		
Interest rate	988,989	1,361,647
Currency	2,178,142	1,763,895
Stock or index	12,877	20,346
Other	241	401
	<u>3,180,249</u>	<u>3,146,289</u>
Financial liabilities held for trading	<u>-</u>	<u>117</u>
Other financial instruments	<u>2,213</u>	<u>50</u>
	<u>3,226,412</u>	<u>3,200,127</u>
Net gain or loss from financial instruments held for trading	<u>₩ 290,133</u>	<u>₩ 356,291</u>

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28.2 Net gains or losses from financial instruments designated at fair value through profit or loss

Net gains or losses from financial instruments designated at fair value through profit or loss includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Gains from financial assets designated at fair value through profit or loss		
Derivative linked securities	₩ 1,697	₩ -
Losses from financial assets designated at fair value through profit or loss		
Derivative linked securities	4,802	-
Net gain or loss from financial assets designated at fair value through profit or loss	<u>₩ (3,105)</u>	<u>₩ -</u>

29. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ 313	₩ -
Gains on sale of available-for-sale financial assets	397,757	54,769
	<u>398,070</u>	<u>54,769</u>
Gain on sale of held-to-maturity financial assets	-	1,668
Gains on foreign exchange transactions	2,422,525	1,468,472
Dividend income	84,538	75,627
Others	183,365	153,059
	<u>3,088,498</u>	<u>1,753,595</u>
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on redemption of available-for-sale financial assets	-	6
Losses on sale of available-for-sale financial assets	2,142	2,242
Impairment on available-for-sale financial assets	216,027	180,784
	<u>218,169</u>	<u>183,032</u>
Losses on foreign exchange transactions	2,399,321	1,452,100
Others	892,734	887,014
	<u>3,510,224</u>	<u>2,522,146</u>
Net other operating expenses	<u>₩ (421,726)</u>	<u>₩ (768,551)</u>

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30. General and administrative expenses

30.1 General and administrative expenses

The details of general and administrative expenses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,442,575	₩ 1,410,106
Salaries and short-term employee benefits - welfare expense	696,210	652,004
Post-employment benefits - defined benefit plans	164,173	148,163
Post-employment benefits - defined contribution plans	5,085	4,425
Termination benefits	390,245	473
Share-based payments	11,915	7,234
	<u>2,710,203</u>	<u>2,222,405</u>
Depreciation and amortization	<u>204,467</u>	<u>211,599</u>
Other general and administrative expenses		
Rental expense	237,800	262,834
Tax and dues	97,721	100,725
Communication	24,046	23,603
Electricity and utilities	23,858	23,312
Publication	13,816	14,681
Repairs and maintenance	12,085	13,798
Vehicle	7,833	9,155
Travel	3,581	3,313
Training	18,402	14,152
Service fees	87,704	85,097
Others	370,305	388,184
	<u>897,151</u>	<u>938,854</u>
	<u>₩ 3,811,821</u>	<u>₩ 3,372,858</u>

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30.2 Share-based payments

30.2.1 Share options

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2015 and 2014, are as follows:

(In Korean won, except shares)

	2015						
	Number of granted shares			Number of exercisable shares	Exercise price per share	Remaining contractual life (Years)	
	Beginning	Expired	Ending				
Series 22	657,498	657,498	-	-	₩ -	-	-
Series 23	15,246	15,246	-	-	-	-	-
	<u>672,744</u>	<u>672,744</u>	<u>-</u>	<u>-</u>			
Weighted average exercise price	₩ 77,268	₩ 77,268	₩ -	₩ -	₩ -	-	

(In Korean won, except shares)

	2014						
	Number of granted shares			Number of exercisable shares	Exercise price per share	Remaining contractual life (Years)	
	Beginning	Expired	Ending				
Series 19	751,651	751,651	-	-	₩ -	-	-
Series 20	25,613	25,613	-	-	-	-	-
Series 21	18,987	18,987	-	-	-	-	-
Series 22	657,498	-	657,498	657,498	77,100	0.11	
Series 23	15,246	-	15,246	15,246	84,500	0.22	
	<u>1,468,995</u>	<u>796,251</u>	<u>672,744</u>	<u>672,744</u>			
Weighted average exercise price	₩ 77,235	₩ 77,207	₩ 77,268	₩ 77,268	₩ -	-	

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30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum number of shares that can be awarded. Actual shares to be granted is determined in accordance with achievement of performance targets over the vesting period.

The details of the share grants as of December 31, 2015, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares¹	Vesting conditions
Series 48	2013.07.23	14,470	Service period : 2 years ^{2,3}
Series 49	2013.07.24	36,495	Service period : 2 years ^{2,3}
Series 50	2013.07.24	9,214	Service period : 2 years ^{2,3}
Series 52	2013.08.01	10,278	Service period : 2 years ^{2,3}
Series 57	2014.01.01	8,853	Service period : 2 years ^{2,3}
Series 58	2014.01.01	78,700	Service period : 2 years ^{2,3}
Series 60	2015.01.01	349,984	Service period : 2 years ^{2,3}
Series 61	2015.04.14	8,390	Service period : 2 years ^{2,3}
Series 62	2015.01.12	15,965	Service period : 2 years ^{2,3}
Series 63	2015.08.01	9,969	Service period : 2 years ^{2,3}
Series 64	2015.07.24	35,069	Service period : 2 years ^{2,3}
Series 65	2015.08.26	13,828	Service period : 2 years ^{2,3}
Series 66	2014.11.21	28,392	Service period : 3 years ^{2,4}
Deferred grant in 2010	-	50	
Deferred grant in 2011	-	101	
Deferred grant in 2012	-	13,082	
Deferred grant in 2013	-	69,240	
Deferred grant in 2014	-	124,149	
Deferred grant in 2015	-	1,877	
		828,106	

¹ Granted shares represent the total number of shares initially granted to directors and employees that have residual shares at the end of reporting period. However, deferred grants are residual shares at the end of reporting period.

² Certain portion of the granted shares is compensated over a maximum period of three years.

³ In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of the targeted performance results, the targeted relative TSR and the targeted financial results of the Bank, respectively. However, as for certain number of shares, half of the

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number of shares to be granted is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted performance results.

⁴ 30%, 35% and 35% of the number of shares to be granted are determined upon the accomplishment of the targeted total assets growth rate, the targeted relative TSR and the targeted ROA, respectively.

The details of share grants linked to short-term performance as of December 31, 2015, are as follows:

	<u>Grant date</u>	<u>Number of vested shares¹</u>	<u>Vesting conditions</u>
Granted shares for 2010	2010.01.01	363	Vested
Granted shares for 2011	2011.01.01	3,985	Vested
Granted shares for 2012	2012.01.01	54,609	Vested
Granted shares for 2013	2013.01.01	68,751	Vested
Granted shares for 2014	2014.01.01	164,953	Vested
Granted shares for 2015	2015.01.01	174,345	Proportion to service period

¹ The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2015, are as follows:

(In Korean won)

	<u>Expected exercise period (Years)</u>	<u>Risk free rate (%)</u>	<u>Fair value (Market performance condition)</u>	<u>Fair value (Non-market performance condition)</u>
Linked to long term performance				
Series 48	0.00~3.00	1.63	36,497	33,145~34,180
Series 49	0.00~3.00	1.63	36,382	33,145~34,180
Series 49-1	0.00~3.00	1.63	36,583	33,145~34,180
Series 50	0.00~3.00	1.63	36,382	33,145~34,180
Series 52	0.00~3.00	1.63	36,321	33,145~34,180
Series 57	0.00~3.00	1.63	34,407	33,145~34,180
Series 58	0.00~3.00	1.63	34,407	33,145~34,180
Series 60	1.00~4.00	1.63	31,695	33,145~33,213
Series 61	1.28~5.01	1.63	31,695	33,110~33,213
Series 62	1.00~4.00	1.63	31,695	33,145~33,213
Series 63	1.58~5.01	1.64	31,695	33,110~33,213
Series 64	1.56~5.01	1.64	31,695	33,110~33,213
Series 65	1.65~5.01	1.64	31,695	33,110~33,213
Series 66	1.89~4.89	1.64	33,689	33,157~33,292
Grant deferred in 2012	0.00	1.72	-	34,180
Grant deferred in 2013	0.00~1.00	1.72	-	33,153~34,180
Grant deferred in 2014	0.00~2.00	1.72	-	33,143~34,180
Grant deferred in 2015	0.02~2.03	1.72	-	33,179~33,877

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	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to short-term performance				
Share granted in 2012	0.00	1.72	-	34,180
Share granted in 2013	0.00~1.00	1.72	-	33,153~39,944
Share granted in 2014	0.00~2.03	1.72	-	33,143~34,180
Share granted in 2015	0.00~3.00	1.72	-	33,145~34,180

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant and the current stock price as of December 31, 2015, was used for the underlying asset price. Also, the average three-year historical dividend rate was used as the expected dividend rate.

As of December 31, 2015 and 2014, the accrued expenses related to share-based payments, including share options and share grants, amounted to ₩33,754 million and ₩32,256 million, respectively, and the compensation costs from share options and share grants amounting to ₩11,915 million and ₩7,234 million were incurred during the years ended December 31, 2015 and 2014, respectively. There is no intrinsic value of the vested share options as of December 31, 2014.

31. Non-operating income and expenses

The details of non-operating income and expenses for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	2014
Non-operating income		
Gains of disposal in property and equipment and assets held for sale	₩ 1,017	₩ 1,454
Rent received	28,560	14,093
Others	258,716	57,535
	<u>288,293</u>	<u>73,082</u>
Non-operating expenses		
Losses of disposal in property and equipment and assets held for sale	927	1,163
Donation	41,839	45,884
Restoration cost	722	1,818
Others	51,369	58,216
	<u>94,857</u>	<u>107,081</u>
Net non-operating income(expenses)	<u>₩ 193,436</u>	<u>₩ (33,999)</u>

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32. Income tax expense

Income tax expense for the years ended December 31, 2015 and 2014, consists of:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Tax payable		
Current tax expense	₩ 207,579	₩ 415,966
Adjustments recognized in the period for current tax of prior years	(16,207)	(13,855)
	<u>191,372</u>	<u>402,111</u>
Changes in deferred income tax assets (liabilities)	51,908	(14,876)
Income tax expense of overseas branches	3,827	6,202
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	24,707	(70,015)
Changes in remeasurements of net defined benefit liabilities	4,627	26,691
Losses on hedging investment of A net investment in a foreign operation	8,134	-
Others	(778)	78
	<u>36,690</u>	<u>(43,246)</u>
Consolidated tax effect	<u>(9,806)</u>	<u>(18,957)</u>
Tax expense	<u>₩ 273,991</u>	<u>₩ 331,234</u>

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2015 and 2014, follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Profit before income tax	<u>₩1,381,229</u>	<u>₩1,360,275</u>
Tax at the applicable tax rate ¹	333,796	328,724
Non-taxable income	(53,443)	(6,091)
Non-deductible expense	13,713	10,665
Tax credit and tax exemption	(397)	(141)
Temporary difference for which no deferred tax is recognized	5,082	17,788
Tax supplementary pay(rebate) for tax of prior years	(21,222)	(9,375)
Income tax expense of overseas branches	3,827	6,202
Tax effect of investments in subsidiaries	1,241	2,085
Income tax expense of overseas branch	(671)	765
Consolidated tax effect	(9,806)	(18,957)
Others	1,871	(431)
Tax expense	<u>₩ 273,991</u>	<u>₩ 331,234</u>
Tax expense / Profit before income tax (%)	19.84	24.35

¹ Applicable income tax rate for ₩200 million and below is 11%, for ₩200 million to ₩20 billion is 22%, and for over ₩20 billion is 24.2%.

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The details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	2015	2014
Income tax refund receivables prior to offsetting ¹	₩ (229,470)	₩ (215,345)
Tax payables prior to offsetting ²	210,024	414,239
Tax payables (receivable) after offsetting	(19,446)	198,894
Adjustment on consolidated tax payable and others ³	(9,806)	(18,956)
Accounts payable ⁴	36,373	(172,353)
Current tax payable	<u>₩ 7,121</u>	<u>₩ 7,585</u>

¹ Excludes current tax assets of ₩17,612 million (2014: ₩305,831 million) from uncertain tax position, which do not qualify for offsetting.

² Includes income tax payable of ₩7,121 million (2014: ₩7,585 million) under current tax liabilities as of December 31, 2015, which are not to be offset against any income tax refund receivables, such as those of overseas branches.

³ Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.

⁴ The amount of income tax payable by the Group is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividend to the shareholders of the parent company in respect of the year ended December 31, 2015, of ₩941 per share, amounting to total dividends of ₩380,521 million, is to be proposed at the annual general shareholders' meeting on March 24, 2016. The Group's consolidated financial statements as of December 31, 2015, do not reflect this dividend payable.

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34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩(87,688)	₩ (19,121)	₩ -	₩ 4,627	₩(102,182)
Currency translation differences	(12,149)	45,142	-	-	32,993
Gains(losses) on valuation of available-for-sale financial assets	760,530	214,106	(316,525)	24,707	682,818
Gains(losses) on valuation of equity method investments	(89,882)	3,314	-	(778)	(87,346)
Gains(losses) on hedges of a net investment in a foreign operation	-	(33,610)	-	8,134	(25,476)
	<u>₩ 570,811</u>	<u>₩ 209,831</u>	<u>₩ (316,525)</u>	<u>₩ 36,690</u>	<u>₩ 500,807</u>

(In millions of Korean won)

	2014				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (4,085)	₩ (110,294)	₩ -	₩ 26,691	₩ (87,688)
Currency translation differences	(29,430)	17,281	-	-	(12,149)
Gains(losses) on valuation of available-for-sale financial assets	538,218	360,397	(68,070)	(70,015)	760,530
Gains(losses) on valuation of held-to-maturity financial assets	3	-	(3)	-	-
Gains(losses) on valuation of equity method investments	(57,087)	(33,122)	249	78	(89,882)
	<u>₩ 447,619</u>	<u>₩ 234,262</u>	<u>₩ (67,824)</u>	<u>₩ (43,246)</u>	<u>₩ 570,811</u>

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35. Trust Accounts

Financial information of the trust accounts the Group manages as of December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015		2014	
	Total assets	Operating revenues	Total assets	Operating revenues
Consolidated	₩ 3,754,063	₩ 125,392	₩ 3,614,835	₩ 150,598
Unconsolidated	34,216,814	1,334,526	28,062,557	1,230,286
	<u>₩ 37,970,877</u>	<u>₩ 1,459,918</u>	<u>₩ 31,677,392</u>	<u>₩ 1,380,884</u>

¹ Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant receivables and payables related to the Group's trust accounts as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	2014
Assets		
Accrued trust fees	₩ 27,796	₩ 24,054
Liabilities		
Due to trust accounts	₩2,791,403	₩2,548,578
Accrued interest on due to trust accounts	6,354	5,790
	<u>₩2,797,757</u>	<u>₩2,554,368</u>

Significant revenue and expenses related to the Group's trust for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015	2014
Revenues		
Fees and commissions from trust accounts	₩ 241,246	₩ 203,426
Commissions from early termination in trust accounts	171	129
	<u>₩ 241,417</u>	<u>₩ 203,555</u>
Expenses		
Interest expenses on due to trust accounts	₩ 48,293	₩ 52,664

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36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Cash	₩ 2,073,741	₩ 2,018,753
Checks with other banks	396,955	525,452
Due from Bank of Korea	6,791,990	6,508,623
Due from other financial institutions	<u>5,300,304</u>	<u>4,920,682</u>
	<u>14,562,990</u>	<u>13,973,510</u>
Restricted due from financial institutions	(6,905,907)	(6,877,675)
Due from financial institutions with original maturities over three months	<u>(1,187,577)</u>	<u>(763,775)</u>
	<u>(8,093,484)</u>	<u>(7,641,450)</u>
	<u>₩ 6,469,506</u>	<u>₩ 6,332,060</u>

Significant non-cash transactions for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Decrease in loans due to the write-offs	₩ 979,633	₩ 1,589,912
Changes in accumulated other comprehensive income due to valuation of financial investments	(77,712)	222,309
Changes in accumulated other comprehensive income due to investment in associates	2,536	(32,795)
Changes in financial investments due to debt-for-equity swap with Taihan Electric Wire Co., Ltd.	14,729	-
Changes in financial investments due to debt-for-equity swap with Hyundai Cement Co., Ltd.	-	25,178

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	Activities	<u>2015</u>	<u>2014</u>
Income tax paid	Operating	₩ 99,296	₩ 303,291
Interest received	Operating	8,956,307	10,204,384
Interest paid	Operating	4,063,499	4,834,915
Dividends received	Operating	84,765	82,897
Dividends paid	Financing	230,496	158,517

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37. Contingent liabilities and commitments

Acceptances and guarantees as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 422,316	₩ 428,815
Others	609,034	669,233
	<u>1,031,350</u>	<u>1,098,048</u>
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	250,647	327,963
Letter of guarantees	51,500	61,081
Bid bond	62,402	43,362
Performance bond	1,006,304	1,087,394
Refund guarantees	1,924,030	1,494,023
Others	1,444,618	959,685
	<u>4,739,501</u>	<u>3,973,508</u>
Financial guarantees		
Acceptances and guarantee for issue of debentures	51,200	51,200
Acceptances and guarantees for mortgage	27,805	75,651
Overseas debt guarantees	374,769	392,021
International financing guarantees in foreign currencies	11,893	35,949
Others	-	600
	<u>465,667</u>	<u>555,421</u>
	<u>6,236,518</u>	<u>5,626,977</u>
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,142,496	2,825,919
Refund guarantees	1,019,116	1,060,413
	<u>3,161,612</u>	<u>3,886,332</u>
	<u>₩ 9,398,130</u>	<u>₩ 9,513,309</u>

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Acceptances and guarantees by counterparty as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			Proportion (%)
	Confirmed guarantees	Unconfirmed guarantees	Total	
Large companies	₩ 5,238,851	₩ 2,489,134	₩ 7,727,985	82.23
Small medium sized companies	833,355	517,703	1,351,058	14.38
Public and others	164,312	154,775	319,087	3.39
	<u>₩ 6,236,518</u>	<u>₩ 3,161,612</u>	<u>₩ 9,398,130</u>	<u>100.00</u>

(In millions of Korean won)

	2014			Proportion (%)
	Confirmed guarantees	Unconfirmed guarantees	Total	
Large companies	₩ 4,611,841	₩ 2,936,635	₩ 7,548,476	79.35
Small medium sized companies	857,004	562,655	1,419,659	14.92
Public and others	158,132	387,042	545,174	5.73
	<u>₩ 5,626,977</u>	<u>₩ 3,886,332</u>	<u>₩ 9,513,309</u>	<u>100.00</u>

Acceptances and guarantees by industry as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015			Proportion (%)
	Confirmed guarantees	Unconfirmed guarantees	Total	
Financial institutions	₩ 108,031	₩ 3,664	₩ 111,695	1.19
Manufacturing	3,559,955	1,934,904	5,494,859	58.47
Service	584,333	68,494	652,827	6.95
Wholesale and retail	1,285,101	796,109	2,081,210	22.14
Construction	606,099	200,976	807,075	8.59
Public	73,160	106,288	179,448	1.91
Others	19,839	51,177	71,016	0.75
	<u>₩ 6,236,518</u>	<u>₩ 3,161,612</u>	<u>₩ 9,398,130</u>	<u>100.00</u>

(In millions of Korean won)

	2014			Proportion (%)
	Confirmed guarantees	Unconfirmed guarantees	Total	
Financial institutions	₩ 125,350	₩ 3,573	₩ 128,923	1.36
Manufacturing	3,179,368	2,410,472	5,589,840	58.76
Service	583,302	114,645	697,947	7.34
Wholesale and retail	932,282	788,804	1,721,086	18.09
Construction	709,582	215,382	924,964	9.72
Public	72,964	336,484	409,448	4.30
Others	24,129	16,972	41,101	0.43
	<u>₩ 5,626,977</u>	<u>₩ 3,886,332</u>	<u>₩ 9,513,309</u>	<u>100.00</u>

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Commitments as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	<u>2015</u>	<u>2014</u>
Commitments		
Corporate loan commitments	₩ 39,088,006	₩ 42,975,974
Retail loan commitments	15,051,360	13,846,701
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Other purchase of security investment	<u>1,613,287</u>	<u>1,635,657</u>
	<u>56,752,653</u>	<u>59,458,332</u>
Financial Guarantees		
Credit line	3,449,749	3,809,478
Purchase of security investment	<u>98,700</u>	<u>73,500</u>
	<u>3,548,449</u>	<u>3,882,978</u>
	<u>₩ 60,301,102</u>	<u>₩ 63,341,310</u>

Other Matters (including litigation)

a) The Bank has filed 59 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩388,395 million, and faces 165 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩321,176 million, which arose in the normal course of the business and are still pending as of December 31, 2015.

b) According to shareholders' agreement on September 25, 2009, among the Bank, the International Finance Corporation ("IFC") and the remaining shareholders, the Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between the Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩11,254 million and ₩26,487 million as of December 31, 2015 and 2014, respectively.

d) The Bank filed a claim for rectification of education tax paid for revenues regarding the credit card business before the spin-off. The claim was ruled in favor of the Bank by the Supreme Court in December 2012, and the refunded education tax amounting to ₩83,100 million was recognized as revenue.

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Depending on the judgments of the court or the National Tax Service, the beneficiary of refunded education tax may be changed from the Bank to KB Kookmin Card Co., Ltd. However, the possibility of such event is considered relatively low.

e) During the year ended December 31, 2013, the Bank underwent a tax audit for the fiscal years 2008 to 2012 by the Seoul Regional Tax Office. As a result, the Bank was assessed a total of ₩124,357 million for underpaid income taxes (including local income taxes). Thereafter, the Bank paid ₩123,330 million, excluding local income tax amounting to ₩1,027 million recognized as non-trade payable as of December 31, 2015. Subsequently, the Bank has appealed to the tax tribunal for the amount of ₩114,283 million in connection with the above tax assessment. The appeal is pending as of December 31, 2015.

38. Subsidiaries

The details of subsidiaries as of December 31, 2015, are as follows:

Name of subsidiaries	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others ¹	-	Korea	Trust
Samho Kyungwon Co., Ltd. and 3 others ²	-	Korea	Asset-backed securitization and others
KB Haeorum Private securities 26 and 6 others ³	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1 ³	86.00	Korea	Investment Trust
KB Star Retail Private Real Estate Master Fund 1 ^{2,4}	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Master Fund 2 ^{2,4}	38.22	Korea	Investment Trust

¹ The Bank controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.

² The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.

³ The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power.

⁴ Ownerships are based on consolidated basis.

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The condensed financial information of major subsidiaries as of December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	2015				
	Assets	Liabilities	Equity	Operating revenue	Profit (Loss) for the period
Kookmin Bank Int'l Ltd.(London)	₩ 472,941	₩ 388,623	₩ 84,318	₩ 10,756	₩ 3,484
Kookmin Bank Hong Kong Ltd.	684,994	529,847	155,147	14,529	5,127
Kookmin Bank Cambodia PLC.	88,675	63,851	24,824	5,850	2,054
Kookmin Bank (China) Ltd.	1,663,788	1,231,463	432,325	42,269	(8,465)
Personal pension trust and 10 others	3,803,511	3,704,365	99,146	129,956	3,664

(In millions of Korean won)

	2014				
	Assets	Liabilities	Equity	Operating revenue	Profit (Loss) for the period
Kookmin Bank Int'l Ltd.(London)	₩ 441,292	₩ 365,483	₩ 75,809	₩ 11,069	₩ 3,466
Kookmin Bank Hong Kong Ltd.	639,509	498,960	140,549	16,495	8,616
Kookmin Bank Cambodia PLC.	95,864	74,578	21,286	6,021	266
Kookmin Bank (China) Ltd.	1,259,847	846,151	413,696	43,507	7,984
Personal pension trust and 10 others	3,667,615	3,571,818	95,797	167,608	(443)

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

- The Bank provides the capital commitment of ₩258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩185,717 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.

- The Bank provides the guarantees of payment of principal or principal and fixed rate of return, in case the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

Changes in subsidiaries

The condonation of the debt of KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd. was made and it was excluded from the consolidation during the year ended December 31, 2015. KB Mortgage Loan No. 1 Limited, KB Covered Bond First International Limited, Heungkuk Multi Private

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Securities H-19 and 30 other private securities were excluded from the consolidation due to their respective liquidation during the year ended December 31, 2015.

39. Unconsolidated Structured Entity

As of December 31, 2015, the nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and collection securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans related to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of general partners and limited partners

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As of December 31, 2015 and 2014, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	2015				
	Asset-backed securitization	Project Financing	Investment funds	Others	Total
Total assets of the unconsolidated structured entities	₩ 51,915,323	₩ 22,279,763	₩ 10,208,708	₩ 5,969,463	₩ 90,373,257
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	₩ 218,496	₩ -	₩ -	₩ -	₩ 218,496
Derivative financial assets	373	-	-	-	373
Loans	178,863	2,512,158	-	373,760	3,064,781
Financial investments	9,324,629	7,867	1,413,044	18,303	10,763,843
Investments in associates	-	-	407,319	-	407,319
	<u>₩ 9,722,361</u>	<u>₩ 2,520,025</u>	<u>₩ 1,820,363</u>	<u>₩ 392,063</u>	<u>₩ 14,454,812</u>
Liabilities					
Deposits	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
	<u>₩ 258,554</u>	<u>₩ 728,059</u>	<u>₩ 15,159</u>	<u>₩ 19,743</u>	<u>₩ 1,021,515</u>
Maximum exposure to loss¹	<u>₩ 13,281,642</u>	<u>₩ 3,768,352</u>	<u>₩ 3,482,225</u>	<u>₩ 421,864</u>	<u>₩ 20,954,083</u>
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

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(In millions of Korean won)

	2014				
	Asset-backed securitization	Project Financing	Investment funds	Others	Total
Total assets of the unconsolidated structured entities	₩ 9,953,552	₩ 19,901,366	₩ 6,072,832	₩ 5,923,270	₩41,851,020
Carrying amount on financial statements					
Assets					
Loans	₩ 192,619	₩ 2,315,744	₩ -	₩ 252,195	₩ 2,760,558
Financial investments	564,156	13,778	912,042	17,000	1,506,976
Investments in associates	-	-	387,510	-	387,510
Other assets	2	-	-	-	2
	<u>₩ 756,777</u>	<u>₩ 2,329,522</u>	<u>₩ 1,299,552</u>	<u>₩ 269,195</u>	<u>₩ 4,655,046</u>
Liabilities					
Deposits	₩ 300,015	₩ 500,538	₩ 15,834	₩ 32,986	₩ 849,373
	<u>₩ 300,015</u>	<u>₩ 500,538</u>	<u>₩ 15,834</u>	<u>₩ 32,986</u>	<u>₩ 849,373</u>
Maximum exposure to loss ¹	<u>₩ 4,719,103</u>	<u>₩ 4,581,520</u>	<u>₩ 3,597,876</u>	<u>₩ 491,313</u>	<u>₩13,389,812</u>
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

¹ Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the consolidated financial statements of the Group.

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40. Finance and Operating Leases

40.1 Finance lease

The future minimum lease payments as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Net carrying amount of finance lease assets	₩32,583	₩ 44,138
Minimum lease payments		
Within 1 year	₩ 1,983	₩ 11,902
1-5 years	<u>226</u>	<u>1,637</u>
	<u>₩ 2,209</u>	<u>₩13,539</u>
Present value of minimum lease payments		
Within 1 year	₩ 1,950	₩ 11,632
1-5 years	<u>222</u>	<u>1,609</u>
	<u>₩ 2,172</u>	<u>₩ 13,241</u>

40.2 Operating lease

40.2.1 The Group as operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Minimum lease payments		
Within 1 year	₩ 107,696	₩ 107,806
1-5 years	92,729	90,191
Over 5 years	<u>34,679</u>	<u>34,439</u>
	<u>₩ 235,104</u>	<u>₩ 232,436</u>
Minimum sublease payments	₩ (1,340)	₩ (703)

The lease payments reflected in profit or loss for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Lease payment reflected in profit or loss		
Minimum lease payment	₩ 167,053	₩ 191,285
Sublease payment	<u>(721)</u>	<u>(540)</u>
	<u>₩ 166,332</u>	<u>₩ 190,745</u>

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40.2.2 The Group as operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Minimum lease receipts		
Within 1 year	₩ 9,212	₩ 9,445
1-5 years	9,866	15,636
	<u>₩19,078</u>	<u>₩25,081</u>

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>		<u>2015</u>	<u>2014</u>
Parent			
KB Financial Group Inc.	Fee and commission income	₩ 719	₩ 273
	Other non-operating income	999	1,400
	Interest expense	2,429	1,961
Parent's subsidiaries			
KB Investment Co., Ltd.	Interest expense	590	766
KB Data System Co., Ltd.	Fee and commission income	1	1
	Other non-operating income	47	49
	Interest expense	267	345
	General and administrative expenses	14,160	13,189
KB Real Estate Trust Co., Ltd.	Fee and commission income	4	4
	Other non-operating income	41	43
	Interest expense	904	533
	Fee and commission expense	956	766
KB Life Insurance Co., Ltd.	Fee and commission income	19,591	15,118
	Other non-operating income	56	119
	Interest expense	1,151	229
KB Credit Information Co., Ltd.	Fee and commission income	187	4
	Other non-operating income	324	409
	Interest expense	197	313
	Fee and commission expense	18,442	14,829
KB Asset Management Co., Ltd.	Fee and commission income	607	472
	Other non-operating income	-	2
	Interest expense	1,148	1,724
	Fee and commission expense	835	786

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<i>(In millions of Korean won)</i>		2015	2014	
KB Investment and Securities Co., Ltd.	Interest income	159	245	
	Fee and commission income	3,694	3,353	
	Other non-operating income	928	664	
	Reversal of credit losses	11	1	
	Interest expense	2,282	3,712	
	Fee and commission expense	635	703	
	Losses on financial assets/ liabilities at fair value through profit or loss	-	2	
	Other operating expense	10	-	
	Provision for credit losses	9	1	
	KB Kookmin Card Co., Ltd.	Interest income	3,010	2,912
Fee and commission income		245,202	222,644	
Reversal of credit losses		416	-	
Other non-operating income		1,126	1,556	
Interest expense		5,690	7,753	
Fee and commission expense		141	338	
Provision for credit losses		415	-	
General and administrative expenses		-	180	
KB Savings Bank Co., Ltd.	Fee and commission income	81	105	
	Other non-operating income	15	7	
	KB Capital Co., Ltd.	Fee and commission income	243	129
KB Capital Co., Ltd.	Gains on financial assets/liabilities at fair value through profit or loss	-	6	
	Other non-operating income	89	49	
	Interest expense	2	1	
	KB Mezzanine Private Securities Fund	Fee and commission income	203	758
	Hanbando BTL Private Special Asset Fund	Fee and commission income	203	195
KB Senior Loan Private Fund	Fee and commission income	23	-	
Associates				
KB12-1 Venture Investment Partnership	Interest expense	107	134	
	Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
UAMCO., Ltd.	Interest expense	73	66	
	Fee and commission income	14	14	
	Interest expense	8	12	
United PF 1st Recovery Private Equity Fund	Interest income	49	-	
Incheon Bridge Co., Ltd.	Interest income	12,843	13,226	
	Reversal of credit losses	2	-	
	Provision for credit losses	-	2	
	Interest expense	436	543	
	Future Planning KB Start-up Creation Fund	Interest expense	-	19
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	92	50	

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

<i>(In millions of Korean won)</i>		<u>2015</u>	<u>2014</u>
Associate of parent			
KB Insurance Co., Ltd.	Interest income	50	-
	Fee and commission income	2,456	-
	Gains on financial assets/liabilities at fair value through profit or loss	2,761	-
	Other non-operating income	10	-
	Interest expense	164	-
	Losses on financial assets/liabilities at fair value through profit or loss	164	-
	General and administrative expenses	2,633	-
Associates of parent's subsidiaries			
Semiland Co., Ltd. ¹	Interest income	-	8
	Reversal of credit losses	-	4
KB IC 3rd Private Equity Fund	Interest expense	23	38
KB No.2 Special Purpose Acquisition Company ¹	Interest expense	-	1
KB No.3 Special Purpose Acquisition Company	Interest expense	5	6
KB No.4 Special Purpose Acquisition Company	Interest expense	25	9
KB No.5 Special Purpose Acquisition Company	Interest expense	44	4
KB No.6 Special Purpose Acquisition Company	Interest expense	66	4
KB No.7 Special Purpose Acquisition Company	Interest expense	38	-
KB No.8 Special Purpose Acquisition Company	Interest expense	21	-
KB No.9 Special Purpose Acquisition Company	Interest expense	7	-
SAWNICS Inc.	Interest expense	1	-
eClear International Co., Ltd. ¹	Interest income	18	-
SY Auto Capital Co., Ltd.	Interest expense	24	-
Other			
Retirement pension	Fee and commission income	611	448
	Interest expense	955	788

¹ Not considered to be the Group's related party as of December 31, 2015.

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
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The details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>		2015	2014
Parent			
KB Financial Group Inc.	Other assets	₩ 41,442	₩ 465
	Deposits	324,947	30,739
	Other liabilities	54,619	224,763
Parent's subsidiaries			
KB Investment Co., Ltd.	Deposits	37,125	37,219
	Other liabilities	117	198
KB Data System Co., Ltd.	Other assets	893	1,037
	Deposits	18,028	19,790
	Other liabilities	1,242	1,214
KB Real Estate Trust Co., Ltd.	Deposits	24,025	96,087
	Other liabilities	405	651
KB Life Insurance Co., Ltd.	Other assets	1,218	1,342
	Deposits	255	57
	Debts	25,000	30,000
	Other liabilities	103	41
KB Credit Information Co., Ltd.	Other assets	183	-
	Deposits	5,864	6,766
	Other liabilities	6,226	6,193
KB Asset Management Co., Ltd.	Other assets	169	127
	Deposits	74,062	69,453
	Other liabilities	438	439
KB Investment and Securities Co., Ltd.	Cash and due from financial institutions	282	945
	Gross amounts of loans and receivables	8,438	34,997
	Allowances	3	15
	Other assets	402	327
	Deposits	117,257	105,449
	Other liabilities	5,134	8,993
	Provisions	13	4
KB Kookmin Card Co., Ltd.	Other assets	26,891	27,382
	Deposits	385,060	454,205
	Other liabilities	64,136	36,546
	Provisions	415	416
KB Savings Bank Co., Ltd.	Other assets	17	14
	Other liabilities	371	-
KB Capital Co., Ltd.	Other assets	11	5
	Deposits	741	534

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

<i>(In millions of Korean won)</i>		2015	2014
KB Mezzanine Private Securities Fund	Other assets	27	167
Hanbando BTL Private Special Asset Fund	Other assets	46	49
KB Senior Loan Private Fund	Other assets	11	-
Associates			
KB12-1 Venture Investment Partnership	Deposits	5,753	9,767
	Other liabilities	4	10
Korea Credit Bureau Co., Ltd.	Deposits	19,435	24,715
	Other liabilities	22	17
UAMCO., Ltd	Deposits	815	1,654
	Incheon Bridge Co., Ltd.	Gross amounts of loans and receivables	231,653
		Allowances	300
	Other assets	970	1,144
	Deposits	35,916	35,421
	Other liabilities	153	249
JSC Bank CenterCredit	Cash and due from financial institutions	1,225	178
Terra Corporation	Deposits	1	1
DPAPS Co.,Ltd.	Deposits	3	-
EJADE Co.,Ltd.	Deposits	12	-
Doosung Metal Co., Ltd	Deposits	1	-
KB Star office Private real estate Investment Trust No.1	Deposits	7,446	6,067
	Other liabilities	56	-
Associate of Parent			
KB Insurance Co., Ltd.	Other assets	6,503	-
	Derivative assets ¹	2,059	-
	Deposits	8,415	-
	Provisions	30	-
	Other liabilities	789	-
	Derivative liabilities ¹	219	-
Associates of Parent's subsidiaries			
KB IC 3rd Private Equity Fund	Deposits	850	1,400
	Other liabilities	9	24
KB No.3 Special Purpose Acquisition Company ²	Deposits	-	832
	Other liabilities	-	6
KB No.4 Special Purpose Acquisition Company ²	Deposits	-	2,500
	Other liabilities	-	1
KB No.5 Special Purpose Acquisition Company	Deposits	2,323	2,389
	Other liabilities	39	1
KB No.6 Special Purpose Acquisition Company	Deposits	4,195	4,406
	Other liabilities	68	3

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
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<i>(In millions of Korean won)</i>		2015	2014
KB No.7 Special Purpose Acquisition Company	Deposits	2,336	-
	Other liabilities	37	-
KB No.8 Special Purpose Acquisition Company	Deposits	2,373	-
	Other liabilities	21	-
KB No.9 Special Purpose Acquisition Company	Deposits	2,973	-
	Other liabilities	7	-
SAWNICS Inc.	Deposits	319	-
SY Auto Capital Co.,Ltd.	Deposits	1,845	-
Key management	Gross amounts of loans and receivables	2,280	2,325
	Other assets	3	3
	Deposits	4,114	18,378
	Other liabilities	29	171
Others			
Retirement pension	Other assets	264	191
	Deposits	51,920	41,412
	Other liabilities	37,969	246

¹ Notional amount related to derivative assets and liabilities is ₩56,798 million as of December 31, 2015.

² Not considered to be the Group's related party as of December 31, 2015.

In accordance with Korean IFRS 1024, the Group includes parent, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the parent company and the executive directors (vice presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Significant loan transactions with related parties for the years ended December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

	2015 ¹				
	Beginning	Loans	Repayments	Others	Ending
Parent's subsidiary					
KB Kookmin Card Co., Ltd.	₩ -	₩ 4,005	₩ 4,005	₩ -	₩ -
KB Investment and Securities Co., Ltd.	34,997	14,094	40,653	-	8,438
Associate					
Incheon Bridge Co., Ltd.	247,870	8,000	24,217	-	231,653

(In millions of Korean won)

	2014 ¹				
	Beginning	Loans	Repayments	Others	Ending
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩ 32,995	₩ 2,002	₩ -	₩ -	₩ 34,997
Associate					
Incheon Bridge Co., Ltd.	249,362	12,360	13,852	-	247,870

¹ Transactions and balances arising from operating activities between related parties, such as settlements, are excluded.

The settlement transactions and deposits arising from operating activities with related parties are excluded and there are no other borrowing transactions.

Unused commitments provided to related parties as of December 31, 2015 and 2014, are as follows:

(In millions of Korean won)

		2015	2014
Parent's subsidiary			
KB Investment and Securities Co., Ltd.	Loan commitment in won	₩ 39,062	₩ 12,503
KB Investment Co., Ltd.	Commitments on purchase of security investment	600	-
	Loss sharing agreements	1,000	-
KB Kookmin Card Co., Ltd.	Loan commitment in won	520,000	520,000
	Other commitments in won	1,000,000	1,000,000
KB Mezzanine Private Securities Fund	Commitments on purchase of security investment	18,359	18,359
KB Mezzanine Private Security Investment Trust No.2	Commitments on purchase of security investment	51,048	70,312
Hanbando BTL Private Special Asset Fund	Commitments on purchase of security investment	15,931	15,931
KB Hope Sharing BTL Private Special Asset Fund	Commitments on purchase of security investment	48,045	48,045
KB Senior Loan Private Fund	Commitments on purchase of security investment	64,964	-

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
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<i>(In millions of Korean won)</i>		2015	2014
Associates			
Balhae Infrastructure Fund	Commitments on purchase of security investment	18,098	21,744
UAMCO., Ltd.	Commitments on purchase of security investment	89,950	89,950
KB12-1 Venture Investment Partnership	Commitments on purchase of security investment	-	11,200
KoFC POSCO HANHWA KB shared growth Private Equity Fund	Commitments on purchase of security investment	13,040	19,000
KoFC KBIC Frontier Champ 2010-5(PEF)	Commitments on purchase of security investment	1,290	1,290
United PF 1st Recovery Private Equity Fund	Commitments on purchase of security investment	49,383	49,383
KB GwS Private Equity Trust	Commitments on purchase of security investment	-	876
Incheon Bridge Co., Ltd.	Loan commitment in Korean won	38,963	33,163
Future Planning KB Start-up Creation Fund	Commitments on purchase of security investment	8,000	16,000
JSC Bank CenterCredit	Loan commitment in foreign currencies	117,200	-
Associate of Parent			
KB Insurance Co., Ltd.	Loan commitment in Korean won	20,000	-
Key management			
	Loan commitment in Korean won	223	372

Unused commitments received from related parties as of December 31, 2015 and 2014, are as follows:

<i>(In millions of Korean won)</i>		2015	2014
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 8,539	₩ 5,917
KB Real Estate Trust Co., Ltd.	Commitments on purchase of security investment	4,319	4,319
KB Life Insurance Co., Ltd.	Commitments on purchase of security investment	21,595	21,595
KB Investment and Securities Co., Ltd.	Commitments on purchase of security investment	4,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in won	80,316	79,164

Compensation to key management for the years ended December 31, 2015 and 2014, consists of:

<i>(In millions of Korean won)</i>	2015			
	Short-term employee benefits	Post-employment benefits	Share-based payments	Total
Registered directors (executive)	₩ 987	₩ 59	₩ 632	₩1,678
Registered directors (non-executive)	304	-	-	304
Non-registered directors	3,943	57	2,814	6,814
	<u>₩ 5,234</u>	<u>₩ 116</u>	<u>₩ 3,446</u>	<u>₩8,796</u>

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
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(In millions of Korean won)

	2014			
	Short-term employee benefits	Post- employment benefits	Share-based payments	Total
Registered directors (executive)	₩ 1,405	₩ 63	₩ 1,162	₩ 2,630
Registered directors (non-executive)	457	-	-	457
Non-registered directors	4,860	296	3,685	8,841
	<u>₩ 6,722</u>	<u>₩ 359</u>	<u>₩ 4,847</u>	<u>₩11,928</u>

Significant operating transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collateral offered to related parties as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

	Assets pledged	2015		2014	
		Carrying amount	Collateralized amount	Carrying amount	Collateralized amount
Parent's subsidiaries					
KB Investment and Securities Co., Ltd.	Securities	₩ 54,042	₩ 54,000	₩ 54,084	₩ 54,000
KB Life Insurance Co., Ltd.	Securities	16,263	15,000	16,326	15,000
Associate of Parent's subsidiaries					
KB Insurance Co., Ltd	Building / Land	426,885	45,500	114,609	39,000
	Building / Land	216,284	26,000	-	-

Collateral received from related parties as of December 31, 2015 and 2014, is as follows:

(In millions of Korean won)

		2015	2014
		₩	₩
Parent's subsidiaries			
KB Investment and Securities Co., Ltd.	Time deposits	₩ 52,000	₩ 52,440
KB Kookmin Card Co., Ltd.	Time deposits	22,000	22,000
Associate			
Incheon Bridge Co., Ltd.	Fund management account for Standby loan commitment	65,000	65,000
Key management			
	Time deposits and others	249	257
	Real estate	2,662	3,583

As of December 31, 2015, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

collateral in respect to collateralized amount for ₩816,400 million to a financial syndicate consisting of the Bank and four other institutions, and as subordinated collateral in respect to collateralized amount for ₩201,100 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are contingently liable for the payables of the Bank before the spin-off date.

42. Approval of Issuance of the Financial Statements

The issuance of the Group's consolidated financial statements as of and for the year ended December 31, 2015, was approved by the Board of Directors on February 3, 2016.

Independent Auditor's Report

(English Translation of a Report Originally Issued in the Korean Language)

To the Shareholders and Board of Directors of
Kookmin Bank

We have audited the accompanying consolidated financial statements of Kookmin Bank and its subsidiaries (collectively "the Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013 and January 1, 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and 2013 and January 1, 2013, and their financial performance and cash flows for the years ended December 31, 2014 and 2013 in accordance with the Korean IFRS.

Other Matters

The consolidated financial statements of the Group as of and for the year ended December 31, 2013 and the consolidated statements of financial position as of January 1, 2013 were audited in accordance with the previous Korean Standards on Auditing.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
March 10, 2015

The report is effective as of March 10, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2014 and 2013, and January 1, 2013

<i>(In millions of Korean won)</i>	Notes	December 31, 2014	December 31, 2013	January 1, 2013
Assets				
Cash and due from financial institutions	4,6,7,36	₩ 13,973,510	₩ 13,730,250	₩ 10,028,910
Financial assets at fair value through profit or loss	4,6,12	7,520,471	7,069,875	6,497,757
Derivative financial assets	4,6,9	1,910,217	1,718,882	1,996,241
Loans	4,6,10,11	211,525,560	203,123,755	199,414,818
Financial investments	4,6,8,12	29,258,527	30,086,604	32,190,095
Investments in associates	13	667,332	741,987	922,956
Property and equipment	14	2,888,194	2,903,425	2,937,752
Investment property	14	409,266	201,005	92,204
Intangible assets	15	206,895	224,584	264,818
Current income tax assets	32	305,831	329,443	318,450
Deferred income tax assets	16,32	5,314	443	447
Assets held for sale	18	54,034	20,927	5,269
Other assets	4,6,17	6,728,513	5,437,205	6,695,586
Total assets		₩ 275,453,664	₩ 265,588,385	₩ 261,365,303
Liabilities				
Financial liabilities at fair value through profit or loss	4,6	₩ 51,650	₩ 40,067	₩ 41,979
Derivative financial liabilities	4,6,9	1,759,099	1,766,034	2,040,713
Deposits	4,6,19	211,611,432	200,967,688	197,232,967
Debts	4,6,20	14,297,460	13,569,923	14,631,518
Debentures	4,6,21	15,250,464	16,212,758	15,949,496
Provisions	22	483,375	539,737	537,351
Net defined benefit liabilities	23	57,493	51,525	73,061
Current income tax liabilities	32	7,585	1,333	7,131
Deferred income tax liabilities	16,32	110,358	120,364	195,350
Other liabilities	4,6,24,30	9,884,275	11,372,199	10,319,729
Total liabilities		253,513,191	244,641,628	241,029,295
Equity				
Capital stock	25	2,021,896	2,021,896	2,021,896
Capital surplus		5,219,704	5,219,704	5,219,672
Accumulated other comprehensive income	34	570,811	447,619	384,154
Retained earnings	25,33	14,128,062	13,257,538	12,708,949
(Provision of regulatory reserve for credit losses				
Dec. 31, 2014 : ₩1,690,979 million				
Dec. 31, 2013 : ₩1,590,347 million				
Jan. 1, 2013 : ₩1,529,643 million)				
(Amounts estimated to be appropriated				
Dec. 31, 2014 : ₩176,782 million				
Dec. 31, 2013 : ₩100,632 million				
Jan. 1, 2013 : ₩60,704 million)				
Equity attributable to shareholders of the parent company		21,940,473	20,946,757	20,334,671
Non-controlling interest equity		-	-	1,337
Total equity		21,940,473	20,946,757	20,336,008
Total liabilities and equity		₩ 275,453,664	₩ 265,588,385	₩ 261,365,303

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

<i>(In millions of Korean won)</i>	Notes	2014	2013
Interest income		₩ 9,702,627	₩ 10,595,380
Interest expense		<u>(4,731,181)</u>	<u>(5,435,140)</u>
Net interest income	26	<u>4,971,446</u>	<u>5,160,240</u>
Fee and commission income		1,271,338	1,281,650
Fee and commission expense		<u>(193,293)</u>	<u>(176,906)</u>
Net fee and commission income	27	<u>1,078,045</u>	<u>1,104,744</u>
Net gains on financial assets/liabilities at fair value through profit or loss	28	<u>356,291</u>	<u>690,501</u>
Net other operating expenses	29	<u>(768,551)</u>	<u>(1,055,386)</u>
General and administrative expenses	14,15,23,30	<u>(3,372,858)</u>	<u>(3,396,788)</u>
Operating profit before provision for credit losses		<u>2,264,373</u>	<u>2,503,311</u>
Provision for credit losses	11,17,22	<u>(887,654)</u>	<u>(1,065,189)</u>
Operating profit		<u>1,376,719</u>	<u>1,438,122</u>
Share of profit (loss) of associates	13	17,555	(202,880)
Net other non-operating expense	31	<u>(33,999)</u>	<u>(23,631)</u>
Net non-operating loss		<u>(16,444)</u>	<u>(226,511)</u>
Profit before income tax expense		1,360,275	1,211,611
Income tax expense	32	<u>(331,234)</u>	<u>(380,899)</u>
Profit for the year		<u>₩ 1,029,041</u>	<u>₩ 830,712</u>
(Adjusted profit after provision of regulatory reverse for credit losses) 2014 : ₩852,259 million 2013 : ₩730,080 million)	25		
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities		(83,603)	41,545
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		17,281	(2,298)
Valuation gains on financial investments		222,309	33,990
Share of other comprehensive income of associates		<u>(32,795)</u>	<u>(9,698)</u>
Other comprehensive income for the year, net of tax	34	<u>123,192</u>	<u>63,539</u>
Total comprehensive income for the year		<u>₩ 1,152,233</u>	<u>₩ 894,251</u>
Profit attributable to:			
Shareholders of the parent company		1,029,041	830,628
Non-controlling interests		-	84
		<u>₩ 1,029,041</u>	<u>₩ 830,712</u>
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		1,152,233	894,093
Non-controlling interests		-	158
		<u>₩ 1,152,233</u>	<u>₩ 894,251</u>

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2014 and 2013

(In millions of Korean won)

	Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2013	₩ 2,021,896	₩ 5,219,672	₩ 384,154	₩ 12,390,499	₩ 1,337	₩ 20,017,568
Changes in accounting policy	-	-	-	₩ 318,450	-	₩ 318,450
Restated balance	₩ 2,021,896	₩ 5,219,672	₩ 384,154	₩ 12,708,949	₩ 1,337	₩ 20,336,008
Comprehensive income for the year						
Profit for the year	-	-	-	₩ 830,628	₩ 84	₩ 830,712
Remeasurements of net defined benefit liabilities	-	-	₩ 41,545	-	-	₩ 41,545
Currency translation differences	-	-	₩ (2,372)	-	₩ 74	₩ (2,298)
Gains on valuation of financial investments	-	-	₩ 33,990	-	-	₩ 33,990
Losses on valuation of investments accounted for using the equity method	-	-	₩ (9,698)	-	-	₩ (9,698)
Total comprehensive income for the year	-	-	₩ 63,465	₩ 830,628	₩ 158	₩ 894,251
Transactions with shareholders						
Dividends	-	-	-	₩ (282,039)	-	₩ (282,039)
Changes in interest in subsidiaries	-	₩ 32	-	-	₩ (1,495)	₩ (1,463)
Total transactions with shareholders	-	₩ 32	-	₩ (282,039)	₩ (1,495)	₩ (283,502)
Balance at December 31, 2013	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Balance at January 1, 2014	₩ 2,021,896	₩ 5,219,704	₩ 447,619	₩ 13,257,538	₩ -	₩ 20,946,757
Comprehensive income for the year						
Profit for the year	-	-	-	₩ 1,029,041	-	₩ 1,029,041
Remeasurements of net defined benefit liabilities	-	-	₩ (83,603)	-	-	₩ (83,603)
Currency translation differences	-	-	₩ 17,281	-	-	₩ 17,281
Gains on valuation of financial investments	-	-	₩ 222,309	-	-	₩ 222,309
Losses on valuation of investments accounted for using the equity method	-	-	₩ (32,795)	-	-	₩ (32,795)
Total comprehensive income for the year	-	-	₩ 123,192	₩ 1,029,041	-	₩ 1,152,233
Transactions with shareholders						
Dividends	-	-	-	₩ (158,517)	-	₩ (158,517)
Total transactions with shareholders	-	-	-	₩ (158,517)	-	₩ (158,517)
Balance at December 31, 2014	₩ 2,021,896	₩ 5,219,704	₩ 570,811	₩ 14,128,062	₩ -	₩ 21,940,473

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2014 and 2013

(In millions of Korean won)

	Notes	2014	2013
Cash flows from operating activities			
Profit for the year	₩	1,029,041	₩ 830,712
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss		(83,607)	(111,249)
Losses on derivative financial investments for hedging purposes		28,269	49,047
Adjustment of fair value of derivative financial instruments		(2,040)	699
Provision for credit losses		887,654	1,065,189
Net losses on financial investments		126,592	35,649
Share of (profit) loss of associates		(17,555)	202,880
Depreciation and amortization expense		211,599	240,248
Other net losses on property and equipment/intangible assets		15,460	9,632
Share-based payment		7,234	14,616
Post-employment benefits		148,163	154,404
Net interest income		279,695	226,958
Losses (gains) on foreign currency translation		116,042	(23,252)
Other expense(income)		30,011	(61,113)
		<u>1,747,517</u>	<u>1,803,708</u>
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(426,405)	(598,944)
Derivative financial instrument		35,172	83,266
Loans		(9,452,956)	(5,275,067)
Deferred income tax assets		(4,871)	(1,657)
Current income tax assets		23,612	(10,993)
Other assets		123,395	(4,342,729)
Financial liabilities at fair value through profit or loss		11,441	(2,181)
Deposits		10,645,363	3,823,705
Deferred income tax liabilities		(67,016)	(85,320)
Other liabilities		(970,235)	(607,898)
		<u>(82,500)</u>	<u>(7,017,818)</u>
Net cash generated from (used in) operating activities		<u>2,694,058</u>	<u>(4,383,398)</u>
Cash flows from investing activities			
Disposal of financial investments		18,538,678	22,594,195
Acquisition of financial investments		(17,509,199)	(20,373,262)
Decrease in investments in associates		74,047	26,845
Acquisition of investments in associates		(16,216)	(30,810)
Disposal of property and equipment		194	911
Acquisition of property and equipment		(158,443)	(129,933)
Acquisition of investment property		(211,995)	(114,609)
Disposal of intangible assets		2,577	2,981
Acquisition of intangible assets		(18,078)	(45,974)
Others		(1,301,352)	1,492,487
Net cash provided by (used in) investing activities		<u>(599,787)</u>	<u>3,422,831</u>
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		(201,593)	7,987
Net increase (decrease) in debts		674,205	(1,065,853)
Increase in debentures		6,575,862	3,884,548
Decrease in debentures		(7,673,573)	(3,479,606)
Payment of dividends		(158,517)	(282,039)
Changes in interest in subsidiaries		-	(1,463)
Net increase in other payables from trust accounts		124,903	414,279
Others		(948,359)	828,916
Net cash provided by (used in) financing activities		<u>(1,607,072)</u>	<u>306,769</u>
Exchange gains on cash and cash equivalents		<u>12,221</u>	<u>41,428</u>
Net increase (decrease) in cash and cash equivalents		<u>499,420</u>	<u>(612,370)</u>
Cash and cash equivalents at the beginning of the year	36	<u>5,832,640</u>	<u>6,445,010</u>
Cash and cash equivalents at the end of year	36	<u>₩ 6,332,060</u>	<u>₩ 5,832,640</u>

The accompanying notes are an integral part of these consolidated financial statements.

Kookmin Bank and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

1. The Company

Kookmin Bank (the “Bank”) was incorporated in 1963 under the Citizens National Bank Act to provide banking services to the general public and to small and medium-sized enterprises. Pursuant to the Repeal Act of the Citizens National Bank Act, effective January 5, 1995, the Bank’s status changed to a financial institution which operates under the Banking Act and Commercial Act.

The Bank merged with Korea Long Term Credit Bank on December 31, 1998, and with its subsidiaries, Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd., on August 22, 1999. Also, pursuant to the directive from the Financial Services Commission related to the Structural Improvement of the Financial Industry Act, the Bank acquired certain assets, including performing loans, and assumed most of the liabilities of Daedong Bank on June 29, 1998. Also, the Bank completed the merger with Housing and Commercial Bank (“H&CB”) on October 31, 2001, and merged with Kookmin Credit Card Co., Ltd., a majority-owned subsidiary, on September 30, 2003. Meanwhile, the Bank spun off its credit card business segment on February 28, 2011, and KB Kookmin Card Co., Ltd. became a subsidiary of KB Financial Group Inc.

The Bank listed its shares on the Stock Market Division of the Korea Exchange (“KRX,” formerly Korea Stock Exchange) in September 1994. As a result of the merger with H&CB, the shareholders of the former Kookmin Bank and H&CB received new common shares of the Bank which were relisted on the KRX on November 9, 2001. In addition, H&CB listed its American Depositary Shares (“ADS”) on the New York Stock Exchange (“NYSE”) on October 3, 2000, prior to the merger. Following the merger with H&CB, the Bank listed its ADS on the NYSE on November 1, 2001. The Bank became a wholly owned subsidiary of KB Financial Group Inc. through a comprehensive stock transfer on September 29, 2008. Subsequently, the Bank’s shares and its ADS, each listed on the KRX and the NYSE, were delisted on October 10, 2008 and September 26, 2008, respectively. As of December 31, 2014, the Bank’s paid-in capital is ₩2,021,896 million.

The Bank engages in the banking business in accordance with the Banking Act, trust business in accordance with the Financial Investment Services and Capital Markets Act, and other relevant businesses. As of December 31, 2014, the Bank operates 1,161 domestic branches and offices, and five overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

The consolidated financial statements of the Bank and its subsidiaries (“The Group”) have been prepared in accordance with Korean IFRS. These are the standards and related interpretations issued by the International Accounting Standards Board (“IASB”) that have been adopted by the Republic of Korea.

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The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The Group expects that new standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014, and not early adopted would not have a material impact on its consolidated financial statements.

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2014:

Amendment to Korean IFRS 1032, Financial Instruments: Presentation

According to Amendment to Korean IFRS 1032, *Financial Instruments: Presentation*, provides that the right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances; and if an entity can settle amounts in a manner such that outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion. The application of this amendment does not have a material impact on the consolidated financial statements.

Amendment to Korean IFRS 1036, Impairment of Assets

Amendment to Korean IFRS 1036, *Impairment of Assets*, removed certain disclosures of the recoverable amount of cash-generating units which had been included in this amendment by the issuance of Korean IFRS 1113. The application of this amendment does not have a material impact on the consolidated financial statements.

Amendment to Korean IFRS 1039, Financial Instruments: Recognition and Measurement

Amendment to Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*, allows the continuation of hedge accounting for a derivative that has been designated as a hedging instrument in a circumstance in which that derivative is novated to a central counterparty (CCP) as a consequence of laws or regulations. The application of this amendment does not have a material impact on the consolidated financial statements.

Amendment to Korean IFRS 1102, Share-based payment

Korean IFRS 1102, *Share-based payment*, clarifies the definition of 'vesting conditions' such as 'performance condition', 'service condition' and others. This amendment is applied to share-based

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payment transactions for which the grant date is on or after July 1, 2014. The application of this amendment does not have a material impact on the consolidated financial statements.

Enactment of Korean IFRS 2121, *Levies*

Korean IFRS 2121, *Levies*, is applied to a liability to pay a levy imposed by a government in accordance with the legislation. The interpretation requires that the liability to pay a levy is recognized when the activity that triggers the payment of the levy occurs, as identified by the legislation (the obligating event). The application of this interpretation does not have a material impact on the consolidated financial statements.

For the periods prior to the year ended December 31, 2014, pursuant to Korean IFRS 1037, if an uncertain tax position satisfied the criteria for provisions, the Group measured the best estimate of expenditures for the uncertain tax position. The amount in relation to the claim of refund and the appeal on the levied amount by the tax authority was then recognized as contingent assets. However, in 2014, the Group retrospectively applied the accounting policy in accordance with the Korean IFRS 1012, which allows recognition of the tax payment as income tax assets when it is probable to receive a tax refund. The restated comparative consolidated financial statements reflect adjustments resulting from the retrospective application.

The effect of these changes in accounting policy to financial position as of December 31, 2014 and 2013, and January 1, 2013, and to comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

Effect on Consolidated Statements of Financial Position

<i>(In millions of Korean won)</i>	December 31, 2014	December 31, 2013	January 1, 2013
Increase in current income tax assets	₩ 305,831	₩ 329,443	₩ 318,450
Increase in retained earnings	305,831	329,443	318,450

Effect on Consolidated Statements of Comprehensive Income

<i>(In millions of Korean won)</i>	2014	2013
Increase (decrease) in income tax	₩(23,612)	₩10,993

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

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2.3 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Korean won, which is the parent company's functional and presentation currency. Refer to Notes 3.2.1 and 3.2.2.

2.4 Significant Estimates

The preparation of consolidated financial statements requires the application of accounting policies, certain critical accounting estimates and assumptions that may have a significant impact on the assets (liabilities) and incomes (expenses). Management's estimates of outcomes may differ from actual outcomes if management's estimates and assumptions based on management's best judgment at the reporting date are different from the actual environment.

Estimates and assumptions are continually evaluated and any change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only. Alternatively if the change in accounting estimate affects both the period of change and future periods, that change is recognized in the profit or loss of all those periods.

Uncertainty in estimates and assumptions with significant risk that may result in material adjustment to the consolidated financial statements are as follows:

2.4.1 Income taxes

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

2.4.2 Fair value of financial instruments

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. Refer to Note 6 for details on valuation techniques and inputs used to determine the fair value of financial instruments.

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2.4.3 Provisions for credit losses (allowances for loan losses, provisions for acceptances and guarantees, and unused loan commitments)

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provisions for guarantees, and unused loan commitments. The accuracy of provisions for credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, guarantees and unused loan commitments.

2.4.4 Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions (Note 23).

2.4.5 Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 15).

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group and de-consolidated from the date when control is lost.

If a subsidiary uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the subsidiary's accounting policies conform to those of the Group when the subsidiary's financial statements are used by the Group in preparing the consolidated financial statements.

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Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions; that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

3.1.2 Associates

Associates are entities over which the Group has significant influence in the financial and operating policy decisions. If the Group holds 20% or more of the voting power of the investee, it is presumed that the Group has significant influence.

Under the equity method, investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investee and changes in the investee's equity after the date of acquisition. The Group's share of the profit or loss of the investee is recognized in the Group's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Profit and losses resulting from 'upstream' and 'downstream' transactions between the Group and associates are eliminated to the extent at the Group's interest in associates.

If associates use accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statements are used by the Group in applying equity method.

After the carrying amount of the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

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The Group determines at each reporting date whether there is any objective evidence that the investments in the associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount as 'share of profit or loss of associates' in the statements of comprehensive income.

3.1.3 Structured entity

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. When the Group decides whether it has power to the structured entities in which the Group has interests, it considers factors such as the purpose, the form, the practical ability to direct the relevant activities of a structured entity, the nature of its relationship with a structured entity and the amount of exposure to variable returns.

3.1.4 Trusts and funds

The Group provides management services for trust assets, collective investment and other funds. These trusts and funds are not consolidated in the Group's consolidated financial statements, except for trusts and funds over which the Group has control.

3.1.5 Intra-group transactions

All intra-group balances and transactions, and any unrealized gains arising on intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3.2 Foreign Currency

3.2.1 Foreign currency transactions and balances

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate which is the spot exchange rate at the end of the reporting period. Non-monetary items that are measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined and non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on a non-monetary item are recognized in other comprehensive income, any exchange component of those gains or losses are also recognized in other comprehensive income. Conversely, when gains or losses on a non-monetary item are recognized in profit or loss, any exchange component of those gains or losses are also recognized in profit or loss.

3.2.2 Foreign operations

The financial performance and financial position of all foreign operations, whose functional currencies differ from the Group's presentation currency, are translated into the Group's presentation currency using the following procedures:

Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period. Income and expenses in the statement of comprehensive income presented are translated at average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and are translated into the presentation currency at the closing rate.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss (as a reclassification adjustment) when the gains or losses on disposal are recognized. On the partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

3.3 Recognition and Measurement of Financial Instruments

3.3.1 Initial recognition

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or

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sale of financial assets (a purchase or sale of a financial asset under a contract whose terms require delivery of the financial instruments within the time frame established generally by market regulation or practice) is recognized and derecognized using trade date accounting.

The Group classifies financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, or loans and receivables, or other financial assets. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the nature and holding purpose of the financial instrument at initial recognition in the consolidated financial statements.

At initial recognition, a financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of a financial instrument on initial recognition is normally the transaction price (that is, the fair value of the consideration given or received) in an arm's length transaction.

3.3.2 Subsequent measurement

After initial recognition, financial instruments are measured at amortized cost or fair value based on classification at initial recognition.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition and adjusted to reflect principal repayments, cumulative amortization using the effective interest method and any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Fair value

Fair values, which the Group primarily uses for the measurement of financial instruments, are the published price quotations based on market prices or dealer price quotations of financial instruments traded in an active market where available. These are the best evidence of fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity in the same industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, fair value is determined either by using a valuation technique or independent third-party valuation service. Valuation techniques include using recent arm's

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length market transactions between knowledgeable, willing parties, if available, referencing to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group uses valuation models that are commonly used by market participants and customized for the Group to determine fair values of common over-the-counter (OTC) derivatives such as options, interest rate swaps and currency swaps which are based on the inputs observable in markets. For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry, or a value measured by an independent external valuation institution as the fair values if all or some of the inputs to the valuation models are not market observable and therefore it is necessary to estimate fair value based on certain assumptions.

The Group's Fair Value Evaluation Committee, which consists of the risk management department, trading department and accounting department, reviews the appropriateness of internally developed valuation models, and approves the selection and changing of the external valuation institution and other considerations related to fair value measurement. The review results on the fair valuation models are reported to the Market Risk Management subcommittee by the Fair Value Evaluation Committee on a regular basis.

If the valuation technique does not reflect all factors which market participants would consider in setting a price, the fair value is adjusted to reflect those factors. These factors include counterparty credit risk, bid-ask spread, liquidity risk and others.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from observable current market transactions of the same instrument or based on other relevant observable market data.

3.3.3 Derecognition

Derecognition is the removal of a previously recognized financial asset or financial liability from the statement of financial position. The Group derecognizes a financial asset or a financial liability when, and only when:

Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred and substantially all the risks and rewards

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of ownership of the financial assets are also transferred, or all the risks and rewards of ownership of the financial assets are neither substantially transferred nor retained and the Group has not retained control. If the Group neither transfers nor disposes of substantially all the risks and rewards of ownership of the financial assets, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group transfers the contractual rights to receive the cash flows of the financial asset, but retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the transferred asset in its entirety and recognize a financial liability for the consideration received.

Derecognition of financial liabilities

Financial liabilities are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.4 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, foreign currency, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.5 Non-derivative Financial Assets

3.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

A non-derivative financial asset is classified as held for trading if either:

- It is acquired for the purpose of selling in the near term, or
- It is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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The Group may designate certain financial assets, other than held for trading, upon initial recognition as at fair value through profit or loss when one of the following conditions is met:

- It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.
- A contract contains one or more embedded derivatives; the Group may designate the entire hybrid (combined) contract as a financial asset at fair value through profit or loss if allowed by Korean IFRS 1039, *Financial Instruments: Recognition and measurement*.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income, and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

3.5.2 Financial investments

Available-for-sale and held-to-maturity financial assets are presented as financial investments.

Available-for-sale financial assets

Profit or loss of financial assets classified as available for sale, except for impairment loss and foreign exchange gains and losses resulting from changes in amortized cost of debt securities, is recognized as other comprehensive income, and cumulative profit or loss is reclassified from equity to current profit or loss at the derecognition of the financial asset, and it is recognized as part of other operating profit or loss in the statement of comprehensive income.

However, interest revenue measured using the effective interest method is recognized in current profit or loss, and dividends of financial assets classified as available-for-sale are recognized when the right to receive payment is established.

Available-for-sale financial assets denominated in foreign currencies are translated at the closing rate. For available-for-sale debt securities denominated in foreign currency, exchange differences resulting from changes in amortized cost are recognized in profit or loss as part of other operating income and expenses. For available-for-sale equity securities denominated in foreign currency, the entire change in fair value including any exchange component is recognized in other comprehensive income.

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Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

3.5.3 Loans and receivables

Non-derivative financial assets which meet the following conditions are classified as loans and receivables:

- Those with fixed or determinable payments.
- Those that are not quoted in an active market.
- Those that the Group does not intend to sell immediately or in the near term.
- Those that the Group, upon initial recognition, does not designate as available-for-sale or as at fair value through profit or loss.

After initial recognition, these are subsequently measured at amortized cost using the effective interest method.

If the financial asset is purchased under an agreement to resale the asset at a fixed price or at a price that provides a lender's return on the purchase price, the consideration paid is recognized as loans and receivables.

3.6 Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. However, losses expected as a result of future events, no matter how likely, are not recognized.

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Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.
- It becomes probable that the borrower will declare bankruptcy or undergo financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio.

In addition to the types of events in the preceding paragraphs, objective evidence of impairment for an investment in an equity instrument classified as an available-for-sale financial asset includes a significant or prolonged decline in the fair value below its cost. The Group considers the decline in the fair value of over 30% against the original cost as a "significant decline". A decline is considered as prolonged if the period, in which the fair value of the financial asset has been below its original cost at initial recognition, is same as or more than six months.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured and recognized in profit or loss as either provisions for credit loss or other operating income and expenses.

3.6.1 Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (individual assessment of impairment), and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (collective assessment of impairment).

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Individual assessment of impairment

Individual assessment of impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. This process normally encompasses management's best estimate, such as operating cash flow of the borrower and net realizable value of any collateral held.

Collective assessment of impairment

A methodology based on historical loss experience is used to estimate inherent incurred loss on groups of assets for collective assessment of impairment. Such methodology incorporates factors such as type of collateral, product and borrowers, credit rating, loss emergence period, recovery period and applies probability of default on a group of assets and loss given default by type of recovery method. Also, consistent assumptions are applied to form a formula-based model in estimating inherent loss and to determine factors on the basis of historical loss experience and current condition. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment loss on loans reduces the carrying amount of the asset through use of an allowance account, and when a loan becomes uncollectable, it is written off against the related allowance account. If, in a subsequent period, the amount of the impairment loss decreases and is objectively related to the subsequent event after recognition of impairment, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

3.6.2 Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss as part of other operating income and expenses.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, a portion of the impairment loss is reversed up to but not exceeding the previously recorded impairment loss, with the amount of the reversal recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income. However, impairment losses recognized in profit or loss for an available-for-sale equity instrument classified as available for sale are not reversed through profit or loss.

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3.6.3 Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets carried at amortized cost has been incurred, the amount of the loss is measured as 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. The amount of the loss is recognized in profit or loss as part of other operating income and expenses. The impairment loss on held-to-maturity financial assets is directly deducted from the carrying amount.

In the case of a financial asset classified as held to maturity, if, in a subsequent period, the amount of the impairment loss decreases and it is objectively related to an event occurring after the impairment is recognized, a portion of the previously recognized impairment loss is reversed up to but not exceeding the extent of amortized cost at the date of recovery. The amount of reversal is recognized in profit or loss as part of other operating income and expenses in the statement of comprehensive income.

3.7 Derivative Financial Instruments

The Group enters into numerous derivative financial instrument contracts such as currency forwards, interest rate swaps, currency swaps and others for trading purposes or to manage its exposures to fluctuations in interest rates and currency exchange, amongst others. These derivative financial instruments are presented as derivative financial instruments within the consolidated financial statements irrespective of transaction purpose and subsequent measurement requirement.

The Group designates certain derivatives as hedging instruments to hedge the risk of changes in fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge).

At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk.

3.7.1 Derivative financial instruments held for trading

All derivative financial instruments, except for derivatives that are designated and qualify for hedge accounting, are measured at fair value. Gains or losses arising from a change in fair value are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

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3.7.2 Fair value hedges

If derivatives qualify for a fair value hedge, the change in fair value of the hedging instrument and the change in fair value of the hedged item attributable to the hedged risk are recognized in profit or loss as part of other operating income and expenses. Fair value hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Once fair value hedge accounting is discontinued, the adjustment to the carrying amount of a hedged item is fully amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss. Gains or losses arising from a change in the fair value of an embedded derivative separated from the host contract are recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss.

3.7.4 Day one gain and loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of the financial instrument, there may be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instrument is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss as part of net gains or losses on financial instruments at fair value through profit or loss or other operating income and expenses.

3.8 Property and Equipment

3.8.1 Recognition and measurement

All property and equipment that qualify for recognition as an asset are measured at cost and subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses.

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The cost of property and equipment 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent expenditures are capitalized only when they prolong the useful life or enhance values of the assets but the costs of the day-to-day servicing of the assets such as repair and maintenance costs are recognized in profit or loss as incurred.

3.8.2 Depreciation

Land is not depreciated whereas other property and equipment are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value. As for leased assets, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

The depreciation methods and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings and structures	Straight-line	40 years
Leasehold improvements	Declining-balance	4 years
Equipment and vehicles	Declining-balance	4~5.7 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.9 Investment Properties

3.9.1 Recognition and Measurement

Properties held to earn rentals or for capital appreciation or both are classified as investment properties. Investment properties are measured initially at their cost and subsequently the cost model is used.

3.9.2 Depreciation

Land is not depreciated, whereas other investment properties are depreciated using the method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group. The depreciable amount of an asset is determined after deducting its residual value.

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The depreciation method and estimated useful lives of the assets are as follows:

Property and equipment	Depreciation method	Estimated useful lives
Buildings	Straight-line	40 years

The residual value, the useful life and the depreciation method applied to an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates or if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the changes are accounted for as a change in an accounting estimate.

3.10 Intangible Assets

Intangible assets are measured initially at cost and subsequently carried at their cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, except for goodwill and membership rights, are amortized using the straight-line method with no residual value over their estimated useful economic life since the asset is available for use.

Intangible assets	Amortization method	Estimated useful lives
Industrial property rights	Straight-line	5~10 years
Software	Straight-line	4 years
Others	Straight-line	4~30 years

The amortization year and the amortization method for intangible assets with a finite useful life are reviewed at least at each financial year end. Where an intangible asset is not being amortized, because its useful life is considered to be indefinite, the Group carries out a review in each accounting period to confirm whether or not events and circumstances still support the assumption of an indefinite useful life. If they do not, the change from the indefinite to finite useful life is accounted for as a change in an accounting estimate.

3.10.1 Goodwill

Recognition and measurement

Goodwill acquired from business combinations before January 1, 2010, is stated at its carrying amount which was recognized under the Group's previous accounting policy, prior to the transition to Korean IFRS.

Goodwill acquired from business combinations after January 1, 2010, is initially measured as the excess of the aggregate of the consideration transferred, fair value of non-controlling interest and the

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acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss.

For each business combination, the Group decides whether the non-controlling interest in the acquiree is initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities.

Additional acquisitions of non-controlling interest

Additional acquisitions of non-controlling interests are accounted for as equity transactions. Therefore, no additional goodwill is recognized.

Subsequent measurement

Goodwill is not amortized and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in associates is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investment in the associates.

3.10.2 Subsequent expenditure

Subsequent expenditure is capitalized only when it enhances values of the assets. Internally generated intangible assets, such as goodwill and trade name, are not recognized as assets but expensed as incurred.

3.11 Leases

3.11.1 Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. At the commencement of the lease term, the Group recognizes finance leases as assets and liabilities in its statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset.

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Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.11.2 Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Leases in the financial statements of lessees

Lease payments under an operating lease (net of any incentives received from the lessor) are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the asset's benefit.

Leases in the financial statements of lessors

Lease income from operating leases are recognized in income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred by the lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

3.12 Impairment of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) deferred income tax assets, (ii) assets arising from employee benefits and (iii) non-current assets (or group of assets to be sold) classified as held for sale, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

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The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

If, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss recognized for goodwill is not reversed in a subsequent period. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset, other than goodwill, may no longer exist or may have decreased, and an impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

3.13 Non-Current Assets Held for Sale

A non-current asset or disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell which is measured in accordance with the applicable Korean IFRS, immediately before the initial classification of the asset (or disposal group) as held for sale.

A non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale is not depreciated (or amortized).

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Impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Gains are recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized.

3.14 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. After initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and gains or losses arising from changes in the fair value, and gains or losses from sale and repayment of financial liabilities at fair value through profit or loss are recognized as net gains on financial instruments at fair value through profit or loss in the statement of comprehensive income.

3.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of provisions, and where the effect of the time value of money is material, the amount of provisions are the present value of the expenditures expected to be required to settle the obligation.

Provisions on confirmed and unconfirmed acceptances and guarantees, unfunded commitments of credit cards and unused credit lines of consumer and corporate loans are recognized using a valuation model that applies the credit conversion factor, probability of default, and loss given default.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as provisions. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost to exit from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

3.16 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires the issuer (the Group) 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 original or modified terms of a debt instrument.

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Financial guarantee contracts are initially recognized at fair value. After initial recognition, financial guarantee contracts are measured at the higher of:

- The amount determined in accordance with Korean IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets, and*
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1018, *Revenue*.

3.17 Equity Instrument issued by the Group

An equity instrument is any contract or agreement that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted, net of tax, from the equity.

3.18 Revenue Recognition

3.18.1 Interest income and expense

Interest income and expense are recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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3.18.2 Fee and commission income

The Group recognizes financial service fees in accordance with the accounting standard of the financial instrument related to the fees earned.

Fees that are an integral part of the effective interest of a financial instrument

Such fees are generally treated as adjustments of effective interest. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction and origination fees received on issuing financial liabilities measured at amortized cost. However, fees relating to the creation or acquisition of a financial instrument at fair value through profit or loss are recognized as revenue immediately.

Fees earned as services are provided

Such fees are recognized as revenue as the services are provided. The fees include fees charged for servicing a financial instrument and charged for managing investments.

Fees that are earned on the execution of a significant act

Such fees are recognized as revenue when the significant act has been completed.

Commission on the allotment of shares to a client is recognized as revenue when the shares have been allotted and placement fees for arranging a loan between a borrower and an investor is recognized as revenue when the loan has been arranged.

A syndication fee received by the Group that arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognized as revenue when the syndication has been completed.

3.18.3 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established. Dividend income from financial assets at fair value through profit or loss and financial investment is recognized in profit or loss as part of net gains on financial assets at fair value through profit or loss and other operating income and expenses, respectively.

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3.19 Employee Compensation and Benefits

3.19.1 Post-employment benefits:

Defined benefit plans

All post-employment benefits, other than defined contribution plans, are classified as defined benefit plans. The amount recognized as a net defined benefit liability is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period.

The present value of the defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income(loss).

When the total of the present value of the defined benefit obligation minus the fair value of plan assets results in an asset, it is recognized to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Past service cost is the change in the present value of the defined benefit obligation, which arises when the Group introduces a defined benefit plan or changes the benefits of an existing defined benefit plan. Such past service cost is immediately recognized as an expense for the year.

Defined contribution plans

The contributions are recognized as employee benefit expense when they are due.

3.19.2 Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service. The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service is recognized as a liability (accrued expense), after deducting any amount already paid.

The expected cost of profit-sharing and bonus payments are recognized as liabilities when the Group has a present legal or constructive obligation to make such payments as a result of past events rendered by employees and a reliable estimate of the obligation can be made.

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3.19.3 Share-based payment

The Group operates share-based payment arrangements granting awards to directors and employees of the Group. The Group has a choice of whether to settle the awards in cash or by issuing equity instruments of the parent company at the date of settlement.

For a share-based payment transaction in which the terms of the arrangement provide the Group with the choice of whether to settle in cash or by issuing equity instruments, the Group determines that it has a present obligation to settle in cash because the Group has a past practice and a stated policy of settling in cash. Therefore, the Group accounts for the transaction in accordance with the requirements of cash-settled share-based payment transactions.

The Group measures the services acquired and the liability incurred at fair value. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

3.19.4 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits and when the entity recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. Termination benefits are measured by considering the number of employees expected to accept the offer in the case of a voluntary early retirement. Termination benefits over 12 months after the reporting period are discounted to present value.

3.20 Income Tax Expenses

Income tax expense (tax income) comprises current tax expense (current tax income) and deferred income tax expense (deferred income tax income). Current and deferred income tax are recognized as income or expense and included in profit or loss for the year, except to the extent that the tax arises from (a) a transaction or an event which is recognized, in the same or a different period outside profit or loss, either in other comprehensive income or directly in equity and (b) a business combination.

3.20.1 Current income tax

Current income tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. A difference between the taxable profit and accounting profit may arise when income or expense is included in accounting profit in one period, but is included in taxable profit in a

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different period. Differences may also arise if there is revenue that is exempt from taxation, or expense that is not deductible in determining taxable profit (tax loss). Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The Group offsets current income tax assets and current income tax liabilities if, and only if, the Group (a) has a legally enforceable right to set off the recognized amounts and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.20.2 Deferred income tax

Deferred income tax is recognized, using the asset-liability method, on temporary differences arising between the tax based amount of assets and liabilities and their carrying amount in the consolidated financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except for deferred income tax liabilities for which the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred income tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, 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 income tax liabilities and deferred income tax 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.

The Group offsets deferred income tax assets and deferred income tax liabilities when the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and

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the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity; or different taxable entities which intend either to settle current income 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 income tax liabilities or assets are expected to be settled or recovered.

3.20.3 Uncertain tax positions

Uncertain tax positions arise from tax treatments applied by the Group which may be challenged by the tax authorities due to the complexity of the transaction or different interpretation of the tax laws, a claim for rectification brought by the Group, or an appeal for a refund claimed from the tax authorities related to additional assessments. The Group recognizes its uncertain tax positions in the consolidated financial statements based on the guidance in Korean IFRS 1012. The income tax asset is recognized if a tax refund is probable for taxes paid and levied by the tax authority. However, interest and penalties related to income tax are recognized in accordance with Korean IFRS 1037.

3.21 Transactions with the Trust Accounts

Under the Financial Investment Services and Capital Markets Act, the Group recognizes trust accounts (“the trust accounts”) as separate. The borrowings from trust accounts represent transfer of funds in trust accounts into banking accounts. Such borrowings from trust accounts are recorded as receivables from the banking accounts in the trust accounts and as borrowings from trust accounts in the banking accounts. The Group’s banking accounts earn trust fees from the trust accounts for its management of trust assets and operations. The reserves for future profits and losses are set up in the trust accounts for profits and losses related to those trust funds with a guarantee of the principal or of the principal and a certain minimum rate of return in accordance with the relevant laws and regulations applicable to trust operations. The reserves are used to provide for the losses on such trust funds and, if the losses incurred are in excess of the reserves for future losses, the excess losses are compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts.

3.22 Operating Segments

Operating segments are components of the Group where separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Segment information includes items which are directly attributable and reasonably allocated to the segment.

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4. Financial Risk Management

4.1 Summary

4.1.1 Overview of Financial Risk Management Policy

The financial risks that the Group is exposed to are credit risk, market risk, liquidity risk, operational risk and others.

The note regarding financial risk management provides information about the risks that the Group is exposed to, including the objectives, policies and processes for managing the risks, the methods used to measure the risks, and capital adequacy. Additional quantitative information is disclosed throughout the consolidated financial statements.

The Group's risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other related subsidiaries, and the preemptive response to risk due to rapid changes in the financial environment to support the Group's long-term strategy and business decisions efficiently. Credit risk, market risk, liquidity risk, and operational risk have been recognized as the Group's key risks. These risks are measured in Economic Capital or Value at Risk (VaR) and are managed using a statistical method.

4.1.2 Risk Management Organization

Risk Management Committee

The Risk Management Committee establishes risk management strategies in accordance with the directives of the Board of Directors and determines the Group's target risk appetite, approves significant risk matters and reviews the level of risks that the Group is exposed to and the appropriateness of the Group's risk management operations as an ultimate decision-making authority.

Risk Management Council

The Risk Management Council is a consultative group which reviews and makes decisions on matters delegated by the Risk Management Committee and discusses the detailed issues relating to the Group's risk management.

Risk Management Group

The Risk Management Group is responsible for managing specific policies, procedures and work processes relating to the Group's risk management.

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4.2 Credit Risk

4.2.1 Overview of Credit Risk

Credit risk is the risk of possible losses in an asset portfolio in the event of a counterparty's default, breach of contract and deterioration in the credit quality of the counterparty. For risk management reporting purposes, the individual borrower's default risk, country risk, specific risks and other credit risk exposure components are considered as a whole.

4.2.2 Credit Risk Management

The Group measures expected losses and economic capital on assets that are subject to credit risk management whether on- or off-balance items and uses expected losses and economic capital as a management indicator. The Group manages credit risk by allocating credit risk economic capital limits.

In addition, the Group controls the credit concentration risk exposure by applying and managing total exposure limits to prevent an excessive risk concentration to each industry and borrower.

The Group has organized a credit risk management team that focuses on credit risk management in accordance with the Group's credit risk management policy. The Group's loan analysis department which is independent from the sales department is responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. Kookmin Bank's risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk economic capital, adjusting credit limits, reviewing credit and verifying credit evaluation models.

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4.2.3 Maximum exposure to credit risk

The Group's maximum exposures of financial instruments, excluding equity securities, to credit risk without consideration of collateral values as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Financial assets		
Due from financial institutions	₩ 11,429,305	₩ 11,032,528
Financial assets at fair value through profit or loss		
Financial assets held for trading ¹	7,420,128	6,912,897
Derivatives	1,910,217	1,718,882
Loans ²	211,525,560	203,123,755
Financial investments		
Available-for-sale financial assets	16,415,900	16,431,786
Held-to-maturity financial assets	10,124,136	11,011,518
Other financial assets ²	6,529,032	5,162,649
	<u>265,354,278</u>	<u>255,394,015</u>
Off-balance items		
Acceptances and guarantees contracts	9,045,824	9,804,675
Financial guarantee contracts	4,438,399	3,097,372
Commitments	59,612,220	59,359,752
	<u>73,096,443</u>	<u>72,261,799</u>
	<u>₩ 338,450,721</u>	<u>₩ 327,655,814</u>

¹The amounts of ₩51,345 million and ₩40,252 million as of December 31, 2014 and 2013, respectively, related to financial instruments indexed to the price of gold are included.

² Loans and other financial assets are presented net of allowance for doubtful accounts.

4.2.4 Credit risk of loans

The Group maintains an allowance for loan losses associated with credit risk on loans to manage its credit risk.

Loans are categorized as follows:

(In millions of Korean won)

Loans	2014					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩110,154,228	98.14	₩ 98,992,267	97.81	₩209,146,495	97.98
Past due but not impaired	1,437,183	1.28	328,393	0.32	1,765,576	0.83
Impaired	652,092	0.58	1,888,994	1.87	2,541,086	1.19
	112,243,503	100.00	101,209,654	100.00	213,453,157	100.00
Allowances	(476,974)	0.42	(1,450,623)	1.43	(1,927,597)	0.90
Carrying amount	<u>₩111,766,529</u>		<u>₩ 99,759,031</u>		<u>₩211,525,560</u>	

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(In millions of Korean won)

Loans	2013					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩101,595,876	97.29	₩ 97,889,878	96.84	₩199,485,754	97.06
Past due but not impaired	1,890,536	1.81	529,237	0.52	2,419,773	1.18
Impaired	944,275	0.90	2,664,212	2.64	3,608,487	1.76
	104,430,687	100.00	101,083,327	100.00	205,514,014	100.00
Allowances	<u>(572,286)</u>	0.55	<u>(1,817,973)</u>	1.80	<u>(2,390,259)</u>	1.16
Carrying amount	<u>₩103,858,401</u>		<u>₩ 99,265,354</u>		<u>₩203,123,755</u>	

Credit quality of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Grade 1	₩ 97,566,588	₩42,053,952	₩139,620,540
Grade 2	11,043,769	43,764,285	54,808,054
Grade 3	872,739	10,949,734	11,822,473
Grade 4	453,942	1,858,963	2,312,905
Grade 5	217,190	365,333	582,523
	<u>₩110,154,228</u>	<u>₩98,992,267</u>	<u>₩209,146,495</u>

(In millions of Korean won)

	2013		
	Retail	Corporate	Total
Grade 1	₩ 87,397,741	₩40,079,476	₩127,477,217
Grade 2	12,116,588	43,441,095	55,557,683
Grade 3	1,195,457	11,933,816	13,129,273
Grade 4	630,547	2,174,914	2,805,461
Grade 5	255,543	260,577	516,120
	<u>₩101,595,876</u>	<u>₩97,889,878</u>	<u>₩199,485,754</u>

Credit quality of loans graded according to internal credit ratings are as follows:

	Retail	Corporate
Grade 1	1 to 5 grade	AAA to BBB+
Grade 2	6 to 8 grade	BBB to BB
Grade 3	9 to 10 grade	BB- to B
Grade 4	11 grade	B- to CCC
Grade 5	12 grade or under	CC or under

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Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2014			
	1~29 days	30~59 days	60~89 days	Total
Retail	₩1,231,819	₩ 138,947	₩ 66,417	₩1,437,183
Corporate	277,288	37,090	14,015	328,393
	<u>₩1,509,107</u>	<u>₩ 176,037</u>	<u>₩ 80,432</u>	<u>₩1,765,576</u>

(In millions of Korean won)

	2013			
	1~29 days	30~59 days	60~89 days	Total
Retail	₩1,726,992	₩ 108,070	₩ 55,474	₩1,890,536
Corporate	427,767	53,796	47,674	529,237
	<u>₩2,154,759</u>	<u>₩ 161,866</u>	<u>₩ 103,148</u>	<u>₩2,419,773</u>

Impaired loans are as follows:

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Loans	₩ 652,092	₩ 1,888,994	₩ 2,541,086
Allowances	(257,641)	(986,848)	(1,244,489)
Individual	-	(780,376)	(780,376)
Collective	(257,641)	(206,472)	(464,113)
	<u>₩ 394,451</u>	<u>₩ 902,146</u>	<u>₩ 1,296,597</u>

(In millions of Korean won)

	2013		
	Retail	Corporate	Total
Loans	₩ 944,275	₩ 2,664,212	₩ 3,608,487
Allowances	(377,158)	(1,306,282)	(1,683,440)
Individual	-	(1,087,101)	(1,087,101)
Collective	(377,158)	(219,181)	(596,339)
	<u>₩ 567,117</u>	<u>₩ 1,357,930</u>	<u>₩ 1,925,047</u>

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A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
Guarantee	₩ 18,255	₩ 143,431	₩ 277,607	₩ 34,969,421	₩ 35,408,714
Deposits and savings	948	15,466	35,568	1,781,548	1,833,530
Property and equipment	7,604	4,806	1,943	1,151,842	1,166,195
Real estate	177,623	507,705	1,124,130	123,011,312	124,820,770
	<u>₩204,430</u>	<u>₩671,408</u>	<u>₩1,439,248</u>	<u>₩160,914,123</u>	<u>₩163,229,209</u>

(In millions of Korean won)

	2013				
	Impaired Loans		Non-impaired Loans		Total
	Individual	Collective	Past due	Not past due	
Guarantee	₩ 29,929	₩ 172,122	₩ 307,587	₩ 29,459,512	₩ 29,969,150
Deposits and savings	317	17,787	55,902	1,850,313	1,924,319
Property and equipment	8,901	1,758	799	1,110,056	1,121,514
Real estate	331,462	503,322	1,492,675	114,531,350	116,858,809
	<u>₩370,609</u>	<u>₩694,989</u>	<u>₩1,856,963</u>	<u>₩146,951,231</u>	<u>₩149,873,792</u>

4.2.5 Credit quality of securities

The financial assets at fair value through profit or loss and financial investments (debt securities) excluding equity securities, that are exposed to credit risk are as follows:

(In millions of Korean won)

	2014	2013
Securities that are neither past due nor impaired	₩ 33,908,029	₩ 34,315,191
Impaired securities	790	758
	<u>₩ 33,908,819</u>	<u>₩ 34,315,949</u>

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The credit quality of securities (debt securities) that are neither past due nor impaired as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Grade 1	Grade 2	Grade 3 ¹	Grade 4	Grade 5	Total
Financial assets held for trading	₩ 6,187,646	₩1,181,137	₩ -	₩ -	₩ -	₩ 7,368,783
Available-for-sale financial assets	16,062,648	288,531	63,931	-	-	16,415,110
Held-to-maturity financial assets	10,124,136	-	-	-	-	10,124,136
	<u>₩32,374,430</u>	<u>₩1,469,668</u>	<u>₩63,931</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩33,908,029</u>

(In millions of Korean won)

	2013					
	Grade 1	Grade 2	Grade 3 ¹	Grade 4	Grade 5	Total
Financial assets held for trading	₩ 5,759,568	₩1,113,077	₩ -	₩ -	₩ -	₩ 6,872,645
Available-for-sale financial assets	16,134,333	236,359	₩60,336	-	-	16,431,028
Held-to-maturity financial assets	11,011,518	-	-	-	-	11,011,518
	<u>₩32,905,419</u>	<u>₩1,349,436</u>	<u>₩60,336</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩34,315,191</u>

¹ As there is no foreign credit rating, it is classified as Grade 3.

The credit qualities of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

Credit quality	Domestic			Foreign		
	KAP	KIS	NICE P&I	S&P	Fitch-IBCA	Moody's
Grade 1	AA0 to AAA	AA0 to AAA	AA0 to AAA	A- to AAA	A- to AAA	A3 to Aaa
Grade 2	A- to AA-	A- to AA-	A- to AA-	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Grade 3	BBB0 to BBB+	BBB0 to BBB+	BBB0 to BBB+	BB to BB+	BB to BB+	Ba2 to Ba1
Grade 4	BB0 to BBB-	BB0 to BBB-	BB0 to BBB-	B+ to BB-	B+ to BB-	B1 to Ba3
Grade 5	BB- or under	BB- or under	BB- or under	B or under	B or under	B2 or under

Debt securities' credit qualities denominated in Korean won are based on the lowest credit rating by the three domestic credit rating agencies above, and those denominated in foreign currencies are based on the lowest credit ratings by the three foreign credit rating agencies above.

4.2.6 Credit risk mitigation of derivative financial instruments

A quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)

Deposits and savings, securities and others	<u>₩ 329,482</u>	<u>₩ 271,380</u>
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4.2.7 Credit risk concentration analysis

The details of the Group's loans by country as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Retail	Corporate	Total	%	Allowances	Carrying amount
Korea	₩ 112,193,456	₩ 99,117,030	₩ 211,310,486	99.00	₩ (1,876,968)	₩ 209,433,518
China	84	764,415	764,499	0.36	(15,543)	748,956
Japan	2,581	271,914	274,495	0.13	(31,393)	243,102
U.S.	-	698,294	698,294	0.33	(629)	697,665
Europe	9	184,307	184,316	0.09	(389)	183,927
Others	47,373	173,694	221,067	0.09	(2,675)	218,392
Total	<u>₩ 112,243,503</u>	<u>₩ 101,209,654</u>	<u>₩ 213,453,157</u>	<u>100.00</u>	<u>₩ (1,927,597)</u>	<u>₩ 211,525,560</u>

(In millions of Korean won)

	2013					
	Retail	Corporate	Total	%	Allowances	Carrying amount
Korea	₩ 104,332,072	₩ 99,282,038	₩ 203,614,110	99.08	₩ (2,326,731)	₩ 201,287,379
China	227	583,176	583,403	0.28	(16,075)	567,328
Japan	5,708	475,242	480,950	0.23	(44,248)	436,702
U.S.	-	448,868	448,868	0.22	(653)	448,215
Europe	9	98,752	98,761	0.05	(287)	98,474
Others	92,671	195,251	287,922	0.14	(2,265)	285,657
Total	<u>₩ 104,430,687</u>	<u>₩ 101,083,327</u>	<u>₩ 205,514,014</u>	<u>100.00</u>	<u>₩ (2,390,259)</u>	<u>₩ 203,123,755</u>

The details of the Group's corporate loans by industry as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 8,988,881	8.88	₩ (81,715)	₩ 8,907,166
Manufacturing	32,644,110	32.25	(520,898)	32,123,212
Service	39,106,240	38.64	(276,889)	38,829,351
Wholesale and retail	13,150,375	12.99	(150,237)	13,000,138
Construction	3,688,014	3.64	(396,672)	3,291,342
Public	741,679	0.74	(6,718)	734,961
Others	2,890,355	2.86	(17,494)	2,872,861
	<u>₩ 101,209,654</u>	<u>100.00</u>	<u>₩ (1,450,623)</u>	<u>₩ 99,759,031</u>

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	2013			
	Loans	%	Allowances	Carrying amount
Financial institutions	₩ 10,436,196	10.32	₩ (84,912)	₩10,351,284
Manufacturing	31,112,982	30.78	(605,527)	30,507,455
Service	38,213,720	37.80	(434,041)	37,779,679
Wholesale and retail	13,855,900	13.71	(192,569)	13,663,331
Construction	4,283,211	4.24	(474,580)	3,808,631
Public	654,998	0.65	(8,469)	646,529
Others	2,526,320	2.50	(17,875)	2,508,445
	<u>₩101,083,327</u>	<u>100.00</u>	<u>₩(1,817,973)</u>	<u>₩99,265,354</u>

The details of the Group's retail loans by type as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 52,456,336	46.73	₩ (30,199)	₩ 52,426,137
General purpose	59,787,167	53.27	(446,775)	59,340,392
	<u>₩ 112,243,503</u>	<u>100.00</u>	<u>₩ (476,974)</u>	<u>₩ 111,766,529</u>

(in millions of Korean won)

	2013			
	Loans	%	Allowances	Carrying amount
Housing purpose	₩ 46,422,195	44.45	₩ (77,222)	₩ 46,344,973
General purpose	58,008,492	55.55	(495,064)	57,513,428
	<u>₩ 104,430,687</u>	<u>100.00</u>	<u>₩ (572,286)</u>	<u>₩ 103,858,401</u>

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The details of the Group's securities (debt securities) and derivative financial instruments by industry as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,683,605	36.42
Banking and Insurance	3,863,046	52.42
Others	<u>822,132</u>	<u>11.16</u>
	<u>7,368,783</u>	<u>100.00</u>
Derivative financial assets		
Government and government funded institutions	19,732	1.03
Banking and Insurance	1,755,495	91.90
Others	<u>134,990</u>	<u>7.07</u>
	<u>1,910,217</u>	<u>100.00</u>
Available-for-sale financial assets		
Government and government funded institutions	7,204,867	43.89
Banking and Insurance	7,458,222	45.43
Others	<u>1,752,811</u>	<u>10.68</u>
	<u>16,415,900</u>	<u>100.00</u>
Held-to-maturity financial assets		
Government and government funded institutions	8,072,831	79.74
Banking and Insurance	1,519,324	15.01
Others	<u>531,981</u>	<u>5.25</u>
	<u>10,124,136</u>	<u>100.00</u>
	<u>₩ 35,819,036</u>	

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	2013	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,649,342	38.55
Banking and Insurance	3,438,297	50.03
Others	785,006	11.42
	<u>6,872,645</u>	<u>100.00</u>
Derivative financial assets		
Government and government funded institutions	18,248	1.06
Banking and Insurance	1,589,627	92.48
Others	111,007	6.46
	<u>1,718,882</u>	<u>100.00</u>
Available-for-sale financial assets		
Government and government funded institutions	8,980,993	54.65
Banking and Insurance	6,394,560	38.92
Others	1,056,233	6.43
	<u>16,431,786</u>	<u>100.00</u>
Held-to-maturity financial assets		
Government and government funded institutions	9,146,802	83.06
Banking and Insurance	1,137,057	10.33
Others	727,659	6.61
	<u>11,011,518</u>	<u>100.00</u>
	<u>₩ 36,034,831</u>	

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The details of the Group's securities (debt securities) and derivative financial instruments by country, as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	
	Amount	%
Financial assets held for trading		
Korea	₩ 7,309,697	99.20
India	-	-
Others	<u>59,086</u>	<u>0.80</u>
	<u>7,368,783</u>	<u>100.00</u>
Derivative financial assets		
Korea	736,644	38.56
United States	273,807	14.33
Others	<u>899,766</u>	<u>47.11</u>
	<u>1,910,217</u>	<u>100.00</u>
Available-for-sale financial assets		
Korea	16,363,300	99.68
Others	<u>52,600</u>	<u>0.32</u>
	<u>16,415,900</u>	<u>100.00</u>
Held-to-maturity financial assets		
Korea	<u>10,124,136</u>	<u>100.00</u>
	<u>10,124,136</u>	<u>100.00</u>
	<u>₩ 35,819,036</u>	

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(In millions of Korean won)

	2013	
	Amount	%
Financial assets held for trading		
Korea	₩ 6,856,355	99.76
India	3,194	0.05
Others	13,096	0.19
	<u>6,872,645</u>	<u>100.00</u>
Derivative financial assets		
Korea	526,203	30.61
United States	283,827	16.52
Others	908,852	52.87
	<u>1,718,882</u>	<u>100.00</u>
Available-for-sale financial assets		
Korea	16,407,240	99.85
Others	24,546	0.15
	<u>16,431,786</u>	<u>100.00</u>
Held-to-maturity financial assets		
Korea	11,011,518	100.00
	<u>11,011,518</u>	<u>100.00</u>
	<u>₩ 36,034,831</u>	

The counterparties to the financial assets under due from financial institutions and financial instruments indexed to the price of gold within financial assets held for trading and derivatives are in the banking and insurance industries and have high credit ratings.

4.3 Liquidity risk

4.3.1 Overview of liquidity risk

Liquidity risk is the risk of insolvency or loss due to a disparity between the inflow and outflow of funds, unexpected outflow of funds, and obtaining funds at a high price or disposing of securities at an unfavorable price due to lack of available funds. The Group manages its liquidity risk through analysis of the contractual maturity of interest-bearing assets and liabilities, assets and liabilities related to the other in and outflows, and off-balance items related to the inflow and outflows of currency derivative instruments and others.

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4.3.2. Liquidity risk management and indicator

The liquidity risk is managed by ALM ('Asset Liability Management') and related guidelines which are applied to the risk management policies and procedures that addresses all the possible risks that arise from the overall business of the Group.

The Group has to establish the liquidity risk management strategy including the objectives of liquidity risk management, management policies and internal control system, and obtain approval from Risk Management Committee. Risk Management Committee operates the Risk Management Council for the purpose of efficient risk management, monitors establishment and enforcement of policies based on risk management strategy.

For the purpose of liquidity management, liquidity gap ratio, liquidity ratio, maturity gap ratio and the results of the stress testing related to liquidity risk on transactions affecting the inflow and outflows of funds and transactions of off-balance items are measured, managed and reported to the Risk Management Council and Risk Management Committee on a regular basis.

4.3.3. Analysis of remaining contractual maturity of financial assets and liabilities

Cash flows disclosed below are undiscounted contractual principal and interest to be received (paid) and, thus, differ from the amount in the consolidated financial statements which are based on the present value of expected cash flows. The amount of interest to be received or paid on floating rate assets and liabilities is measured on the assumption that the current interest rate would be the same through maturity.

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The remaining contractual maturity of financial assets and liabilities as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)

	2014						Total
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Financial assets							
Cash and due from financial institutions ¹	₩ 6,199,811	₩ 115,410	₩ 397,630	₩ 398,069	₩ -	₩ -	7,110,920
Financial assets held for trading ²	7,520,471	-	-	-	-	-	7,520,471
Derivatives held for trading ²	1,800,664	-	-	-	-	-	1,800,664
Derivatives held for hedging ³	-	7,742	(1,147)	20,804	77,968	118,803	224,170
Loans	-	15,031,604	20,823,904	73,586,107	55,823,249	87,750,770	253,015,634
Available-for-sale financial assets ⁴	2,647,102	435,221	1,537,962	4,386,464	10,272,973	767,319	20,047,041
Held-to-maturity financial assets	-	272,086	630,918	3,354,275	6,281,737	462,437	11,001,453
Other financial assets	-	4,791,711	-	1,293,372	-	-	6,085,083
	<u>₩ 18,168,048</u>	<u>₩ 20,653,774</u>	<u>₩ 23,389,267</u>	<u>₩ 83,039,091</u>	<u>₩ 72,455,927</u>	<u>₩ 89,099,329</u>	<u>₩ 306,805,436</u>
Financial liabilities							
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ -	₩ -	₩ -	51,650
Derivatives held for trading ²	1,755,674	-	-	-	-	-	1,755,674
Derivatives held for hedging ³	-	-	652	146	6,304	(15,581)	(8,479)
Deposits ⁵	83,199,560	13,960,805	25,460,933	80,474,828	9,602,204	3,266,903	215,965,233
Debts	813	3,958,587	1,814,096	4,840,755	3,646,259	281,796	14,542,306
Debentures	159,620	278,543	1,037,466	3,419,151	7,922,417	3,907,637	16,724,834
Other financial liabilities	-	6,200,724	895	67,886	12,182	86,576	6,368,263
	<u>₩ 85,167,317</u>	<u>₩ 24,398,659</u>	<u>₩ 28,314,042</u>	<u>₩ 88,802,766</u>	<u>₩ 21,189,366</u>	<u>₩ 7,527,331</u>	<u>₩ 255,399,481</u>
Off- balance items							
Commitments ⁶	₩ 59,612,220	₩ -	₩ -	₩ -	₩ -	₩ -	59,612,220
Financial guarantee contracts ⁷	4,438,399	-	-	-	-	-	4,438,399
	<u>₩ 64,050,619</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 64,050,619</u>

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	2013							Total
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Financial assets								
Cash and due from financial institutions ¹	₩ 5,726,599	₩ 71,127	₩ 114,727	₩ 357,637	₩ -	₩ -	₩ -	6,270,090
Financial assets held for trading ²	7,069,875	-	-	-	-	-	-	7,069,875
Derivatives held for trading ²	1,581,436	-	-	-	-	-	-	1,581,436
Derivatives held for hedging ³	-	10,944	1,617	15,533	124,794	123,782	-	276,670
Loans	-	15,809,702	20,506,220	72,953,127	54,324,507	80,955,869	-	244,549,425
Available-for-sale financial assets ⁴	2,341,974	522,162	1,470,780	4,475,576	10,305,903	1,341,860	-	20,458,255
Held-to-maturity financial assets	-	252,760	497,434	3,189,761	7,747,310	522,007	-	12,209,272
Other financial assets	-	3,572,795	2,798	1,334,108	-	-	-	4,909,701
	<u>₩ 16,719,884</u>	<u>₩ 20,239,490</u>	<u>₩ 22,593,576</u>	<u>₩ 82,325,742</u>	<u>₩ 72,502,514</u>	<u>₩ 82,943,518</u>	<u>₩ -</u>	<u>₩ 297,324,724</u>
Financial liabilities								
Financial liabilities held for trading	₩ 40,067	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	40,067
Derivatives held for trading ²	1,561,392	-	-	-	-	-	-	1,561,392
Derivatives held for hedging ³	-	-	25,411	179,000	8,959	-	-	213,370
Deposits ⁵	74,289,043	14,249,778	28,682,303	76,910,326	8,677,170	2,676,923	-	205,485,543
Debts	2,615	3,221,888	1,711,330	4,522,295	4,043,146	355,736	-	13,857,010
Debentures	17,917	605,205	1,594,452	6,652,434	5,987,039	4,596,871	-	19,453,918
Other financial liabilities	-	6,848,581	837	63,086	3,380	31,619	-	6,947,503
	<u>₩ 75,911,034</u>	<u>₩ 24,925,452</u>	<u>₩ 32,014,333</u>	<u>₩ 88,327,141</u>	<u>₩ 18,719,694</u>	<u>₩ 7,661,149</u>	<u>₩ -</u>	<u>₩ 247,558,803</u>
Off- balance items								
Commitments ⁶	₩ 59,359,752	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -	59,359,752
Financial guarantee contracts ⁷	3,097,372	-	-	-	-	-	-	3,097,372
	<u>₩ 62,457,124</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 62,457,124</u>

¹ The amounts of ₩6,879,144 million and ₩7,471,062 million, which are restricted amount due from the financial institutions as of December 31, 2014 and 2013, respectively, are excluded.

² Financial instruments held for trading, and derivatives held for trading are not managed by contractual maturity because they are held for trading or redemption before maturity. Therefore, the carrying amounts are classified as the 'On demand' category.

³ Cash flows of derivative instruments held for fair value hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

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⁴ Equity investments in financial assets classified as available-for-sale are generally included in the 'On demand' category as most are available for sale at anytime. However, in the case of equity investments which are restricted for sale, these are classified in the maturity section to which the end of the restriction period applies.

⁵ Deposits that are contractually repayable on demand or on short notice are classified under the 'On demand' category.

⁶ Unused lines of credit within commitments are included under the 'On demand' category as payments can be required upon request.

⁷ Financial guarantee contracts are included under the 'On demand' category as payments can be required upon request.

4.4 Market risk

4.4.1 Concept

Market risk is the risk of possible losses which arise from changes in market factors, such as interest rate, stock price, foreign exchange rate and other market factors that affect the fair value or future cash flows of financial instruments, such as securities and derivatives amongst others. The most significant risks associated with trading positions are interest rate risks and currency risks, and other risks include stock price risks. In addition, the Group is exposed to interest rate risks and currency risks associated with non-trading positions. The Group classifies exposures to market risk into either trading or non-trading positions for managerial purpose.

4.4.2 Risk management

The Group sets economic capital limits for market risk and interest rate risk and monitors the risks to manage the risk of trading and non-trading positions. The Group maintains risk management systems and procedures, such as trading policies and procedures, market risk management guidelines for trading positions and ALM risk management guidelines for non-trading positions in order to manage market risk efficiently. The procedures mentioned are implemented with approval from the Risk Management Committee and Risk Management Council.

The Group establishes market risk management policy, sets position limits, loss limits and VaR limits of each business group and approves newly developed derivative instruments through its Risk Management Council. The Market Risk Management Committee, which is chaired by the Chief Risk Officer (CRO), is practically the decision maker and sets position limits, loss limits, VaR limits, sensitivity limits and scenario loss limits for each division, at the level of each individual business department.

The ALCO determines the operational standards of interest and commission, the details of the establishment and prosecution of the Asset Liability Management (ALM) policies and enacts and amends relevant guidelines. The Risk Management Committee and Risk Management Council monitor the establishment and enforcement of ALM risk management policies and enact and amend ALM risk management guidelines. The interest rate risk limit is set based on the future assets/liabilities position

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and interest rate volatility estimation reflects the annual work plan. The Financial Planning Department and Risk Management Department measures and monitors the interest risk status and limits on a regular basis. The status and limits of interest rate risks, such as interest rate gap, duration gap and interest rate VaR, are reported to the ALCO and Risk Management Council on a monthly basis and to the Risk Management Committee on a quarterly basis. To ensure adequacy of interest rate and liquidity risk management, the Risk Management Department assigns the limits, monitors and reviews the risk management procedures and tasks conducted by the Financial Planning Department. Also, the Risk Management Department independently reports related information to management.

4.4.3 Trading Position

Definition of a trading position

Trading positions subject to market risk management are interest rate, stock price, commodity positions for short-term profit-taking and others. Also, they include all foreign exchange rate positions. The basic requirements of trading positions are defined under the Trading Policy and Guideline, are as follows:

- The trading position is not restricted for sale, is measured daily at fair value, and its significant inherent risks are able to be hedged in the market.
- The criteria for classification as a trading position are clearly defined in the Trading Policy and guideline, and separately managed by the trading department.
- The trading position is operated in accordance with the documented trading strategy and managed through position limits.
- The operating department or professional dealers have an authority to enforce a deal on the trading position within predetermined limits without pre-approval.
- The trading position is reported periodically to management for the purpose of the Group's risk management.

Observation method on market risk arising from trading positions

The Group calculates VaR to measure the market risk by using market risk management systems on the entire trading portfolio. Generally, the Group manages market risk on the trading portfolio. In addition, the Group controls and manages the risk of derivative trading based on the regulations and guidelines formulated by the Financial Supervisory Service.

Value at Risk (VaR)

i. Value at Risk (VaR)

The Group uses the value-at-risk methodology to measure the market risk of trading positions.

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The Group now uses the 10-day VaR, which estimates the maximum amount of loss that could occur in ten days under an historical simulation model which is considered to be a full valuation method. The distributions of portfolio's value changes are estimated based on the data over the previous 250 business days, and ten-day VaR is calculated by subtracting net present market value from the value measured at a 99% confident level of portfolio's value distribution results.

VaR is a commonly used market risk measurement technique. However, the method has some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements are, however, not necessarily a good indicator of future events, as there may be conditions and circumstances in the future that the model does not anticipate. As a result, the timing and magnitude of the actual losses may vary depending on the assumptions made at the time of the calculation. In addition, the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The Group uses an internal model (VaR) to measure general risk, and a standard method to measure each individual risk. Also, general and individual risks in some positions included in the consolidated financial statements in adoption of Korean IFRS, are measured using a standard method. Therefore, the market risk VaR may not reflect the market risk of each individual risk and some specific positions.

ii. Back Testing

Back testing is conducted on a daily basis to validate the adequacy of the market risk model. In back testing, the Group compares both the actual and hypothetical profit and loss with the VaR calculations.

iii. Stress Testing

Stress testing is carried out to analyze the impact of abnormal market situations on the trading and available-for-sale portfolio. It reflects changes in interest rates, stock prices, foreign exchange rates, implied volatilities of derivatives and other risk factors that have significant influence on the value of the portfolio. The Group mainly uses an historical scenario tool and also uses a hypothetical scenario tool for the analysis of abnormal market situations. Stress testing is performed at least once every quarter.

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VaR at a 99%, excluding Stressed Value at Risks, confidence level of interest rate, stock price and foreign exchange rate risk for trading positions with a ten-day holding period by a subsidiary as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 12,938	₩ 7,657	₩ 19,801	₩ 10,148
Stock price risk	1,627	714	3,858	851
Foreign exchange rate risk	12,049	5,070	14,705	10,814
Deduction of diversification effect				(8,809)
Total VaR	<u>₩ 15,383</u>	<u>₩ 10,089</u>	<u>₩ 23,560</u>	<u>₩ 13,004</u>

(In millions of Korean won)

	2013			
	Average	Minimum	Maximum	Ending
Interest rate risk	₩ 16,270	₩ 7,428	₩ 24,979	₩ 16,967
Stock price risk	3,480	932	7,114	1,049
Foreign exchange rate risk	9,264	5,287	13,589	5,287
Deduction of diversification effect				(6,928)
Total VaR	<u>₩ 17,316</u>	<u>₩ 10,868</u>	<u>₩ 22,249</u>	<u>₩ 16,375</u>

Meanwhile, the required equity capital using the standardized method related to the positions which are not measured by VaR as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Interest rate risk	₩ 792	₩ 921
Stock price risk	1,101	2
Foreign exchange rate risk	9,387	9,214
	<u>₩ 11,280</u>	<u>₩ 10,137</u>

Details of risk factors

i. Interest rate risk

Trading position interest rate risk usually arises from debt securities denominated in Korean won. The Group's trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. The Group manages interest rate risk on trading positions using market value-based tools such as VaR and sensitivity analysis (Price Value of a Basis Point: PVBP).

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ii. Stock price risk

Stock price risk only arises from trading securities denominated in Korean won as the Group does not have any trading exposure to shares denominated in foreign currencies. The trading securities portfolio in Korean won are composed of exchange-traded stocks and derivative instruments linked to stock with strict limits on diversification.

iii. Foreign exchange rate risk

Foreign exchange rate risk arises from holding assets and liabilities denominated in foreign currency. Net foreign currency exposure mostly occurs from the foreign assets and liabilities which are denominated in US dollars and Kazakhstan Tenge, and the remainder in Japanese Yen or Euro. The Group sets both loss limits and net foreign currency exposure limits and manages comprehensive net foreign exchange exposures which consider both trading and non-trading portfolios.

4.4.4 Non-trading position

Definition of non-trading position

The most critical market risk that arises in non-trading portfolios is interest rate risk. Interest rate risk occurs due to mismatches on maturities and interest rate change periods between interest sensitive assets and liabilities. The Group measures interest rate risk arising from assets and liabilities denominated in Korean won and foreign currencies including derivative financial instruments held for hedging. Most interest-bearing assets and interest-bearing liabilities are denominated in Korean won. Most foreign currency assets and liabilities are denominated in US Dollars and the remainder in Japanese Yen or Euro.

Observation method on market risk arising from non-trading position

The main objective of interest rate risk management is to generate stable net interest income and to protect asset values against interest rate fluctuations. The Group manages the risk through interest rate gap analysis on interest rate maturities between interest-bearing assets and interest-bearing liabilities and measuring interest rate VaR.

Disclosure of results from each observation method

i. Interest rate gap analysis

Interest rate gap analysis is based on the interest rates repricing dates for interest-bearing assets and interest-bearing liabilities. It measures expected changes in net interest income by calculating the

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difference in the amounts of interest-bearing assets and interest-bearing liabilities in each maturity bucket. The Group conducts interest gap analysis on assets denominated in Korean won and foreign currencies on a monthly basis. However, where there is no contractual maturity for a particular instrument, then a maturity date is set according to internal liquidity risk management guidelines, determined by ALM.

The results of the interest rate gap analysis as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won						
Loans	₩ 68,690,823	₩ 55,960,715	₩ 43,966,843	₩ 11,880,610	₩ 12,884,897	₩ 193,383,888
Securities	3,291,226	2,140,258	4,959,292	13,258,159	3,052,427	26,701,362
Others	9,428,674	262,105	274,844	702,923	105,144	10,773,690
	<u>₩ 81,410,723</u>	<u>₩ 58,363,078</u>	<u>₩ 49,200,979</u>	<u>₩ 25,841,692</u>	<u>₩ 16,042,468</u>	<u>₩ 230,858,940</u>
Interest-bearing liabilities in Korean won						
Deposits	₩ 76,841,562	₩ 37,205,842	₩ 51,232,529	₩ 21,161,079	₩ 16,554,060	₩ 202,995,072
Debts	5,050,420	-	1,861	-	149,999	5,202,280
Others	10,126,026	1,310,000	1,761,900	4,677,338	3,187,784	21,063,048
	<u>₩ 92,018,008</u>	<u>₩ 38,515,842</u>	<u>₩ 52,996,290</u>	<u>₩ 25,838,417</u>	<u>₩ 19,891,843</u>	<u>₩ 229,260,400</u>
Gap	<u>(10,607,285)</u>	<u>19,847,236</u>	<u>(3,795,311)</u>	<u>3,275</u>	<u>(3,849,375)</u>	<u>1,598,540</u>
Accumulated gap	<u>(10,607,285)</u>	<u>9,239,951</u>	<u>5,444,640</u>	<u>5,447,915</u>	<u>1,598,540</u>	
Percentage (%)	(4.59)	4.00	2.36	2.36	0.69	
Interest-bearing assets in foreign currencies						
Loans	₩ 8,893,457	₩ 1,924,609	₩ 1,054,314	₩ 260,329	₩ 10,936	₩ 12,143,645
Securities	212,317	33,220	78,759	366,650	106,550	797,496
Others	870,227	329,637	335,499	879,360	-	2,414,723
	<u>₩ 9,976,001</u>	<u>₩ 2,287,466</u>	<u>₩ 1,468,572</u>	<u>₩ 1,506,339</u>	<u>₩ 117,486</u>	<u>₩ 15,355,864</u>
Interest-bearing liabilities in foreign currencies						
Deposits	₩ 1,855,823	₩ 2,399,770	₩ 354,414	₩ 124,060	₩ 38,045	₩ 4,772,112
Debts	3,995,282	1,311,170	823,802	82,773	13,026	6,226,053
Others	3,470,659	-	297,470	1,209,119	-	4,977,248
	<u>₩ 9,321,764</u>	<u>₩ 3,710,940</u>	<u>₩ 1,475,686</u>	<u>₩ 1,415,952</u>	<u>₩ 51,071</u>	<u>₩ 15,975,413</u>
Gap	<u>₩ 654,237</u>	<u>₩ (1,423,474)</u>	<u>₩ (7,114)</u>	<u>₩ 90,387</u>	<u>₩ 66,415</u>	<u>₩ (619,549)</u>
Accumulated gap	<u>654,237</u>	<u>(769,237)</u>	<u>(776,351)</u>	<u>(685,964)</u>	<u>(619,549)</u>	
Percentage (%)	4.26	(5.01)	(5.06)	(4.47)	(4.03)	

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	2013					
	Up to 3 months	3~6 months	6~12 months	1~3 years	Over 3 years	Total
Interest-bearing assets in Korean won						
Loans	₩72,001,554	₩ 53,136,309	₩ 41,279,196	₩ 8,007,075	₩ 10,032,240	₩ 184,456,374
Securities	3,148,736	1,415,750	5,476,813	13,295,939	4,226,456	27,563,694
Others	8,785,149	37,387	76,853	305,322	38,543	9,243,254
	<u>₩83,935,439</u>	<u>₩ 54,589,446</u>	<u>₩ 46,832,862</u>	<u>₩ 21,608,336</u>	<u>₩ 14,297,239</u>	<u>₩ 221,263,322</u>
Interest-bearing liabilities in Korean won						
Deposits	₩78,495,667	₩ 35,611,776	₩ 49,147,277	₩ 18,658,789	₩ 14,277,083	₩ 196,190,592
Debts	4,660,240	-	-	-	30,000	4,690,240
Others	8,350,016	2,354,810	1,500,677	2,290,000	3,937,784	18,433,287
	<u>₩91,505,923</u>	<u>₩ 37,966,586</u>	<u>₩ 50,647,954</u>	<u>₩ 20,948,789</u>	<u>₩ 18,244,867</u>	<u>₩ 219,314,119</u>
Gap	<u>₩(7,570,484)</u>	<u>₩ 16,622,860</u>	<u>₩ (3,815,092)</u>	<u>₩ 659,547</u>	<u>₩ (3,947,628)</u>	<u>₩ 1,949,203</u>
Accumulated gap	<u>(7,570,484)</u>	<u>9,052,376</u>	<u>5,237,284</u>	<u>5,896,831</u>	<u>1,949,203</u>	
Percentage (%)	(3.42)	4.09	2.37	2.67	0.88	
Interest-bearing assets in foreign currencies						
Loans	₩ 9,340,182	₩ 1,652,576	₩ 540,205	₩ 170,500	₩ 7,964	₩ 11,711,427
Securities	223,361	26,143	32,469	226,214	249,455	757,642
Others	549,362	210,005	34,825	-	-	794,192
	<u>₩10,112,905</u>	<u>₩ 1,888,724</u>	<u>₩ 607,499</u>	<u>₩ 396,714</u>	<u>₩ 257,419</u>	<u>₩ 13,263,261</u>
Interest-bearing liabilities in foreign currencies						
Deposits	₩ 2,403,901	₩ 1,519,366	₩ 786,493	₩ 128,579	₩ 45,210	₩ 4,883,549
Debts	4,285,418	850,920	613,773	24,707	79,147	5,853,965
Others	2,811,246	261,107	126,888	72,014	-	3,271,255
	<u>₩ 9,500,565</u>	<u>₩ 2,631,393</u>	<u>₩ 1,527,154</u>	<u>₩ 225,300</u>	<u>₩ 124,357</u>	<u>₩ 14,008,769</u>
Gap	<u>₩ 612,340</u>	<u>₩ (742,669)</u>	<u>₩ (919,655)</u>	<u>₩ 171,414</u>	<u>₩ 133,062</u>	<u>₩ (745,508)</u>
Accumulated gap	<u>612,340</u>	<u>(130,329)</u>	<u>(1,049,984)</u>	<u>(878,570)</u>	<u>(745,508)</u>	
Percentage (%)	4.62	(0.98)	(7.92)	(6.62)	(5.62)	

ii. Interest Rate VaR

Interest rate VaR is the maximum possible loss due to interest rate risk under a normal distribution at a 99.94% confidence level. The measurement results of risk as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

Interest Rate VaR	2014	2013
	₩112,500	₩203,503

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4.4.5 Financial assets and liabilities in foreign currencies

Financial assets and liabilities in foreign currencies as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014						Total
	USD	JPY	EUR	GBP	CNY	Others	
Financial assets							
Cash and due from financial institutions	₩ 1,517,144	₩ 145,574	₩104,880	₩10,827	₩47,653	₩115,641	₩ 1,941,719
Financial assets held for trading	43,753	-	15,333	-	-	-	59,086
Derivatives held for trading	55,879	-	694	-	-	-	56,573
Derivatives held for hedging	5,032	-	-	-	-	-	5,032
Loans	10,753,455	900,972	402,656	6,613	3,492	115,633	12,182,821
Available-for-sale financial assets	797,416	-	-	-	-	870	798,286
Other financial assets	1,189,303	61,140	75,970	1,710	46,434	8,908	1,383,465
	<u>₩14,361,982</u>	<u>₩1,107,686</u>	<u>₩599,533</u>	<u>₩19,150</u>	<u>₩97,579</u>	<u>₩241,052</u>	<u>₩16,426,982</u>
Financial liabilities							
Derivatives held for trading	₩ 85,042	₩ -	₩ 920	₩ -	₩ -	₩ -	₩ 85,962
Derivatives held for hedging	226	-	-	-	-	-	226
Deposits	4,612,649	386,851	188,386	19,887	21,297	273,317	5,502,387
Debts	6,388,482	258,483	303,866	880	3,577	168,908	7,124,196
Debentures	2,766,605	73,606	26,731	-	-	22,672	2,889,614
Other financial liabilities	1,194,856	76,150	78,093	7,157	46,710	13,029	1,415,995
	<u>₩15,047,860</u>	<u>₩ 795,090</u>	<u>₩597,996</u>	<u>₩27,924</u>	<u>₩71,584</u>	<u>₩477,926</u>	<u>₩17,018,380</u>
Off- balance items	₩17,494,274	₩ 3,511	₩ 6,549	₩ 4,704	₩11,628	₩ 72,747	₩17,593,413

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(In millions of Korean won)

	2013						
	USD	JPY	EUR	GBP	CNY	Others	Total
Financial assets							
Cash and due from financial institutions	₩ 1,321,708	₩ 119,494	₩ 87,765	₩ 5,460	₩130,221	₩ 85,910	₩ 1,750,558
Financial assets held for trading	16,290	-	-	-	-	-	16,290
Derivatives held for trading	94,324	-	946	-	-	-	95,270
Derivatives held for hedging	16,094	-	-	-	-	-	16,094
Loans Available-for-sale financial assets	10,061,930	1,235,187	381,414	51,677	456	190,828	11,921,492
Other financial assets	773,501	10,052	-	-	-	1,504	785,057
	509,268	314,632	76,016	1,222	-	91,250	992,388
	<u>₩12,793,115</u>	<u>₩1,679,365</u>	<u>₩546,141</u>	<u>₩58,359</u>	<u>₩130,677</u>	<u>₩369,492</u>	<u>₩15,577,149</u>
Financial liabilities							
Derivatives held for trading	₩ 127,213	₩ -	₩ 1,333	₩ -	₩ -	₩ -	₩ 128,546
Deposits	3,914,992	511,583	150,714	15,789	10,905	279,566	4,883,549
Debts	5,830,466	574,307	318,748	4,382	100,464	174,898	7,003,265
Debentures	2,402,032	236,020	193,062	-	-	148,687	2,979,801
Other financial liabilities	1,474,842	59,820	150,815	51,568	913	42,242	1,780,200
	<u>₩13,749,545</u>	<u>₩1,381,730</u>	<u>₩814,672</u>	<u>₩71,739</u>	<u>₩112,282</u>	<u>₩645,393</u>	<u>₩16,775,361</u>
Off- balance items	₩16,548,855	₩ 3,486	₩ 4,879	₩ 4,787	₩ 9,958	₩ 60,221	₩16,632,186

4.5 Operational Risk

4.5.1 Concept

The Group defines operational risk broadly to include all financial and non-financial risks that may arise from operating activities and could cause a negative effect on capital.

4.5.2 Risk management

The purpose of operational risk management is not only to comply with supervisory and regulatory requirements but also to promote a risk management culture, strengthen internal controls, innovate processes and provide timely feedback to management and employees. In addition, the Group established Business Continuity Plans (BCP) to ensure critical business functions can be maintained, or restored, in the event of material disruptions arising from internal or external events. It has constructed replacement facilities as well as has carried out exercise drills for head office and IT departments to test its BCPs.

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4.6 Capital Adequacy

The Group complies with the capital adequacy standard established by the Financial Services Commission. The capital adequacy standard is based on Basel III published by Basel Committee on Banking Supervision in Bank of International Settlements in June 2011, and was implemented in Korea in December 2013. The Group is required to maintain a minimum Common Equity Tier 1 ratio of at least 4.0% (2013: 3.5%), a minimum Tier 1 ratio of 5.5% (2013: 4.5%) and a minimum Total Regulatory Capital of 8.0% (2013: 8.0%) in December 2014.

The Group's equity capital is classified into three categories in accordance with Detailed Supervisory Regulations on Banking Business:

- Common Equity Tier 1 Capital: Common equity Tier 1 Capital represents the issued capital that takes the first and proportionately greatest share of any losses and represents the most subordinated claim in liquidation of the Group, and not repaid outside of liquidation. It includes common shares issued, capital surplus, retained earnings, non-controlling interests of consolidated subsidiaries, accumulated other comprehensive income, other capital surplus and others.
- Additional Tier 1 Capital: Additional Tier 1 Capital includes (i) perpetual instruments issued by the Group that meet the criteria for inclusion in Additional Tier 1 capital, and (ii) stock surplus resulting from the issue of instruments included in Additional Tier 1 capital and others.
- Tier 2 Capital: Tier 2 Capital represents the capital that takes the proportionate share of losses in the liquidation of the Group. Tier 2 Capital includes a fund raised by issuing subordinated debentures maturing in not less than 5 years that meet the criteria for inclusion in Tier 2 capital, and the allowance for loan losses which are accumulated for assets classified as normal or precautionary as a result of classification of asset soundness in accordance with Detailed Supervisory Regulations on Banking Business and others.

Risk-weighted asset means the assets weighted according to the inherent risks in the total assets and the possible losses resulting from the errors of internal process and external events which the Group should cover. The Group calculates risk-weighted asset by each risk (credit risk, market risk, and operational risk) based on Detailed Supervisory Regulations on Banking Business and uses it for its capital ratio calculation.

In addition to the capital ratio, the Group assesses its adequacy of capital by using the internal assessment and management policy of the capital adequacy. The assessment of the capital adequacy is conducted by comparing available capital (actual amount of available capital) and economic capital (amount of capital enough to cover all significant risks under target credit rate set by the Group). The Group monitors the soundness of finance and provides risk adjusted basis for performance review

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using the assessment of the capital adequacy. The economic capital is calculated by adding the stress testing results and other required items to the total economic capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates economic capital by risk type and business group. Each business group efficiently operates its capital within range of granted economic capital. The Risk Management Department of the Group monitors a management of the limit on economic capital and reports the results to management and the Risk Management Council. The Group maintains the adequacy of capital through proactive review and approval of the Risk Management Committee when the economic capital is expected to exceed the limits due to new business or business expansion. The Group and its subsidiaries complied with external capital adequacy requirements as of December 31, 2014 and 2013.

The details of the Group's capital adequacy calculation in line with Basel III requirements as of December 31, 2014 and 2013, is as follows:

<i>(In millions of Korean won)</i>	2014	2013
Equity capital	₩ 23,421,797	₩ 22,624,072
Tier I Capital	19,620,849	18,501,833
Common Equity Tier 1 Capital	19,620,849	18,501,833
Tier II Capital	3,800,948	4,122,239
Risk-weighted assets:	146,689,770	146,742,788
Credit risk ¹	132,453,117	131,830,537
Market risk ²	3,445,138	4,011,905
Operational risk ³	10,791,515	10,900,346
Equity Capital (%):	15.97	15.42
Tier I Capital (%)	13.38	12.61
Common Equity Tier 1 Capital (%)	13.38	12.61

¹ Credit risk-weighted assets are measured using the Internal Rating-Based Approach and Standardized Approach.

² Market risk-weighted assets are measured using the Internal Model-Based Approach and Standardized Approach.

³ Operational risk-weighted assets are measured using the Advanced Measurement Approach.

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5. Segment Information

5.1 Overall Segment Information and Business Segments

The Group is organized into Corporate Banking, Retail Banking and Other Activities. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Group's management organization.

- Corporate banking : The activities within this segment include providing credit, deposit products and other related financial services to large, small-and medium-sized enterprises and SOHOs.
- Retail banking : The activities within this segment include providing credit, deposit products and other related financial services to individuals and households.
- Other activities : The activities within this segment include trading activities in securities and derivatives, funding and other supporting activities.

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Financial information by business segment for the year ended December 31, 2014, is as follows:

(In millions of Korean won)

	2014				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 1,742,308	₩ 2,211,969	₩ 1,682,954	₩ -	₩ 5,637,231
Segment operating revenues(expenses)	38,379	(48,256)	60,295	(50,418)	-
	1,780,687	2,163,713	1,743,249	(50,418)	5,637,231
Net interest income	2,448,966	2,079,834	407,018	35,628	4,971,446
Interest income	4,008,584	4,432,760	1,286,127	(24,844)	9,702,627
Interest expense	(1,559,618)	(2,352,926)	(879,109)	60,472	(4,731,181)
Net fee and commission income	237,229	524,784	333,768	(17,736)	1,078,045
Fee and commission income	277,196	597,072	416,316	(19,246)	1,271,338
Fee and commission expense	(39,967)	(72,288)	(82,548)	1,510	(193,293)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	179	(20,238)	376,282	68	356,291
Net other operating income(expenses)	(905,687)	(420,667)	626,181	(68,378)	(768,551)
General and administrative expenses	(711,029)	(1,695,563)	(966,266)	-	(3,372,858)
Operating profit before provision for credit losses	1,069,658	468,150	776,983	(50,418)	2,264,373
Provision for credit losses	(566,942)	(304,116)	(10,204)	(6,392)	(887,654)
Operating profit	502,716	164,034	766,779	(56,810)	1,376,719
Share of profit of associates	-	-	17,555	-	17,555
Net other non-operating income(expense)	1,242	-	20,309	(55,550)	(33,999)
Segment profit before income tax expense	503,958	164,034	804,643	(112,360)	1,360,275
Income tax expenses	(120,504)	(53,967)	(156,056)	(707)	(331,234)
Profit for the period	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to Shareholders of the parent entity	383,454	110,067	648,587	(113,067)	1,029,041
Profit attributable to Non-controlling interests	-	-	-	-	-
Total assets ¹	94,313,469	111,074,156	74,917,627	(4,851,588)	275,453,664
Total liabilities ¹	83,780,834	123,792,699	47,552,921	(1,613,263)	253,513,191

¹ Amount before intra-group transaction adjustment.

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Financial information by business segment for the year ended December 31, 2013, is as follows:

(In millions of Korean won)

	2013 ¹				
	Corporate Banking	Retail Banking	Others	Intra-group Adjustment	Total
Operating revenues from external customers	₩ 1,690,127	₩ 2,453,683	₩ 1,756,289	₩ -	₩ 5,900,099
Segment operating revenues(expenses)	46,588	(91,800)	85,759	(40,547)	-
	1,736,715	2,361,883	1,842,048	(40,547)	5,900,099
Net interest income	2,550,728	2,012,661	505,926	90,925	5,160,240
Interest income	4,390,623	4,785,526	1,428,056	(8,825)	10,595,380
Interest expense	(1,839,895)	(2,772,865)	(922,130)	99,750	(5,435,140)
Net fee and commission income	240,698	612,165	268,051	(16,170)	1,104,744
Fee and commission income	282,403	674,250	344,540	(19,543)	1,281,650
Fee and commission expense	(41,705)	(62,085)	(76,489)	3,373	(176,906)
Net gains on financial assets/liabilities at fair value through profit or loss	184	(1,804)	691,698	423	690,501
Net other operating income(expenses)	(1,054,895)	(261,139)	376,373	(115,725)	(1,055,386)
General and administrative expenses	(821,503)	(1,739,768)	(835,545)	28	(3,396,788)
Operating profit before provision for credit losses	915,212	622,115	1,006,503	(40,519)	2,503,311
Provision for credit losses	(706,464)	(358,150)	(4,241)	3,666	(1,065,189)
Operating profit	208,748	263,965	1,002,262	(36,853)	1,438,122
Share of profit of associates	-	-	(202,880)	-	(202,880)
Net other non-operating income(expense)	1,662	-	(8,978)	(16,315)	(23,631)
Segment profit before income tax expense	210,410	263,965	790,404	(53,168)	1,211,611
Income tax expenses	(53,195)	(86,283)	(257,398)	15,977	(380,899)
Profit for the period	157,215	177,682	533,006	(37,191)	830,712
Profit attributable to Shareholders of the parent entity	157,215	177,682	533,006	(37,275)	830,628
Profit attributable to Non-controlling interests	-	-	-	84	84
Total assets ²	92,498,513	103,202,391	75,742,515	(5,855,034)	265,588,385
Total liabilities ²	81,008,201	122,206,712	44,680,475	(3,253,760)	244,641,628

¹ Financial information by business segment for the year ended December 31, 2013, were restated due to a retrospective application of changes in accounting policies of Korean IFRS.

² Amount before intra-group transaction adjustment.

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5.2 Services and Geographical Segments

5.2.1 Services information

Operating revenues from external customers by services for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Corporate banking service	₩1,742,308	₩1,690,127
Retail banking service	2,211,969	2,453,683
Other service	1,682,954	1,756,289
	<u>₩5,637,231</u>	<u>₩5,900,099</u>

5.2.2 Geographical information

Operating revenues from external customers for the years ended December 31, 2014 and 2013, and major non-current assets as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>		<u>2013</u>	
	<u>Revenues from external customers</u>	<u>Major non-current assets</u>	<u>Revenues from external customers</u>	<u>Major non-current assets</u>
Domestic	₩ 5,533,506	₩ 3,492,836	₩5,845,877	₩ 3,314,338
United States	11,655	256	12,730	21
New Zealand	6,684	193	8,581	20
China	46,892	7,518	32,190	10,488
Japan	19,842	1,391	(17,182)	1,722
Argentina	573	-	6	-
Vietnam	3,130	287	3,268	316
Cambodia	5,364	564	5,741	898
United Kingdom	9,585	108	8,888	9
Intra-group adjustment	-	1,202	-	1,202
	<u>₩ 5,637,231</u>	<u>₩ 3,504,355</u>	<u>₩5,900,099</u>	<u>₩ 3,329,014</u>

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6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	₩ 13,973,510	₩ 13,973,773	₩ 13,730,250	₩ 13,730,720
Financial assets held for trading	7,520,471	7,520,471	7,069,875	7,069,875
Debt securities	7,368,783	7,368,783	6,872,645	6,872,645
Equity securities	100,343	100,343	156,978	156,978
Others	51,345	51,345	40,252	40,252
Derivatives held for trading	1,800,664	1,800,664	1,581,436	1,581,436
Derivatives held for hedging	109,553	109,553	137,446	137,446
Loans	211,525,560	211,830,395	203,123,755	203,279,962
Available-for-sale financial assets	19,134,391	19,134,391	19,075,086	19,075,086
Debt securities	16,415,900	16,415,900	16,431,786	16,431,786
Equity securities	2,717,991	2,717,991	2,643,050	2,643,050
Others	500	500	250	250
Held-to-maturity financial assets	10,124,136	10,486,946	11,011,518	11,337,813
Other financial assets	6,529,032	6,529,032	5,162,649	5,162,649
	<u>₩ 270,717,317</u>	<u>₩ 271,385,225</u>	<u>₩ 260,892,015</u>	<u>₩ 261,374,987</u>
Financial liabilities				
Financial liabilities held for trading	₩ 51,650	₩ 51,650	₩ 40,067	₩ 40,067
Derivatives held for trading	1,755,674	1,755,674	1,561,392	1,561,392
Derivatives held for hedging	3,425	3,425	204,642	204,642
Deposits	211,611,432	212,004,857	200,967,688	201,212,062
Debts	14,297,460	14,344,110	13,569,923	13,568,598
Debentures	15,250,464	15,693,318	16,212,758	17,368,030
Other financial liabilities	9,344,847	9,344,892	10,865,130	10,865,162
	<u>₩ 252,314,952</u>	<u>₩ 253,197,926</u>	<u>₩ 243,421,600</u>	<u>₩ 244,819,953</u>

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For each class of financial assets and financial liabilities, the Group discloses the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount at the end of each reporting period. The best evidence of fair value of financial instruments is a quoted price in an active market.

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Methods of determining fair value for financial instruments are as follows:

Cash and due from financial institutions	The carrying amounts of cash and demand due from financial institutions and payment due from financial institutions are reasonable approximation of fair values. These financial instruments do not have a fixed maturity and are receivable on demand. Fair value of ordinary due from financial institutions is measured using DCF model (Discounted Cash Flow Model).
Investment securities	The fair value of financial instruments that are quoted in active markets is determined using the quoted prices. Fair value is determined through the use of independent third-party pricing services where quoted prices are not available. Pricing services use one or more of the following valuation techniques including DCF Model, Free Cash Flow to Equity Model, Comparable Company Analysis, Dividend Discount Model, Risk Adjusted Discount Rate Method, and Net Asset Value Method.
Loans	DCF Model is used to determine the fair value of loans. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate.
Derivatives	For exchange traded derivatives, quoted price in an active market is used to determine fair value and for OTC derivatives, fair value is determined using valuation techniques. The Group uses internally developed valuation models that are widely used by market participants to determine fair values of plain vanilla OTC derivatives including options, interest rate swaps, and currency swaps, based on observable market parameters. However, some complex financial instruments are valued using appropriate models developed from generally accepted market valuation models including the Finite Difference Method and the Monte Carlo Simulation or independent third-party valuation service.
Deposits	Carrying amount of demand deposits is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of time deposits is determined using a DCF model. Fair value is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at an appropriate discount rate.
Debts	Carrying amount of overdraft in foreign currency is regarded as representative of fair value because they do not have a fixed maturity and are payable on demand. Fair value of other debts is determined using a DCF model discounting contractual future cash flows at an appropriate discount rate.
Debentures	Fair value is determined by using the valuations of independent third-party pricing services, which are calculated using market inputs.
Other financial assets and other financial liabilities	The carrying amounts are reasonable approximation of fair values. These financial instruments are temporary accounts used for other various transactions and their maturities are relatively short or not defined. However, fair value of finance lease liabilities is measured using a DCF model.

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Fair value hierarchy

The Group believes that valuation methods used for measuring the fair values of financial instruments are reasonable and that the fair values recognized in the statements of financial position are appropriate. However, the fair values of the financial instruments recognized in the statements of financial position may be different if other valuation methods or assumptions are used. Additionally, as there is a variety of valuation techniques and assumptions used in measuring fair value, it may be difficult to reasonably compare the fair value with that of other financial institutions.

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

Level 1: The fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: The fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: The fair values are based on unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

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Fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2014 and 2013, follows:

(In millions of Korean won)

	2014			Total
	Fair value hierarchy			
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets held for trading				
Debt securities	₩ 3,190,784	₩ 4,177,999	₩ -	₩ 7,368,783
Equity securities	68,963	31,380	-	100,343
Others	51,345	-	-	51,345
	<u>3,311,092</u>	<u>4,209,379</u>	<u>-</u>	<u>7,520,471</u>
Derivatives held for trading	-	1,768,638	32,026	1,800,664
Derivatives held for hedging	-	109,293	260	109,553
Available-for-sale financial assets				
Debt securities	6,707,878	9,708,022	-	16,415,900
Equity securities ¹	1,145,988	633	1,571,370	2,717,991
Others	-	500	-	500
	<u>7,853,866</u>	<u>9,709,155</u>	<u>1,571,370</u>	<u>19,134,391</u>
	<u>₩11,164,958</u>	<u>₩15,796,465</u>	<u>₩1,603,656</u>	<u>₩28,565,079</u>
Financial liabilities				
Financial liabilities held for trading	₩ 51,650	₩ -	₩ -	₩ 51,650
Derivatives held for trading	-	1,747,645	8,029	1,755,674
Derivatives held for hedging	-	1,144	2,281	3,425
	<u>₩ 51,650</u>	<u>₩ 1,748,789</u>	<u>₩ 10,310</u>	<u>₩ 1,810,749</u>

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	2013			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,827,007	₩ 4,045,638	₩ -	₩ 6,872,645
Equity securities	120,196	36,782	-	156,978
Others	40,252	-	-	40,252
	<u>2,987,455</u>	<u>4,082,420</u>	<u>-</u>	<u>7,069,875</u>
Derivatives held for trading	241	1,561,326	19,869	1,581,436
Derivatives held for hedging	-	136,994	452	137,446
Available-for-sale financial assets				
Debt securities	9,582,063	6,849,723	-	16,431,786
Equity securities ¹	1,080,684	699	1,561,667	2,643,050
Others	-	250	-	250
	<u>10,662,747</u>	<u>6,850,672</u>	<u>1,561,667</u>	<u>19,075,086</u>
	<u>₩13,650,443</u>	<u>₩12,631,412</u>	<u>₩1,581,988</u>	<u>₩27,863,843</u>
Financial liabilities				
Financial liabilities held for trading	₩ 40,067	₩ -	₩ -	₩ 40,067
Derivatives held for trading	-	1,536,869	24,523	1,561,392
Derivatives held for hedging	-	195,800	8,842	204,642
	<u>₩ 40,067</u>	<u>₩ 1,732,669</u>	<u>₩ 33,365</u>	<u>₩ 1,806,101</u>

¹ The amounts of equity securities carried at cost in "Level 3" which do not have a quoted market price in an active market and cannot be measured reliably at fair value are ₩27,526 million and ₩30,531 million as of December 31, 2014 and 2013, respectively. These equity securities are carried at cost because it is practically difficult to quantify the intrinsic values of the equity securities issued by unlisted public and non-profit entities. In addition, due to significant fluctuations in estimated cash flows arising from entities being in its initial stages, which further results in varying and unpredictable probabilities, unlisted equity securities issued by project financing cannot be reliably and reasonably assessed. Therefore, these equity securities are carried at cost.

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Valuation techniques and the inputs used in the fair value measurement of financial assets and liabilities classified as Level 2

Valuation techniques and inputs of financial assets and liabilities measured at fair value in the statement of financial position and classified as Level 2 as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	2014	2013		
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,177,999	₩ 4,045,638	DCF model	Discount rate
Equity securities	31,380	36,782	DCF model	Discount rate
	<u>4,209,379</u>	<u>4,082,420</u>		
Derivatives held for trading	1,768,638	1,561,326	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	109,293	136,994	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	9,708,022	6,849,723	DCF model	Discount rate
Equity securities	633	699	DCF model	Discount rate
Others	500	250	DCF model	Discount rate
	<u>9,709,155</u>	<u>6,850,672</u>		
	<u>₩ 15,796,465</u>	<u>₩ 12,631,412</u>		
Financial liabilities				
Derivatives held for trading	₩ 1,747,645	₩ 1,536,869	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	1,144	195,800	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	<u>₩ 1,748,789</u>	<u>₩ 1,732,669</u>		

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Fair value hierarchy of financial assets and liabilities whose fair value is disclosed

The fair value hierarchy of financial assets and liabilities whose fair value is disclosed as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets				
Cash and due from financial institutions ¹	₩2,544,205	₩10,198,808	₩ 1,230,760	₩ 13,973,773
Loans	-	-	211,830,395	211,830,395
Held-to-maturity financial assets	2,616,385	7,870,561	-	10,486,946
Other financial assets ²	-	-	6,529,032	6,529,032
	<u>₩5,160,590</u>	<u>₩18,069,369</u>	<u>₩219,590,187</u>	<u>₩242,820,146</u>
Financial liabilities				
Deposits ¹	₩ -	₩82,783,564	₩129,221,293	₩212,004,857
Debts ¹	-	48,984	14,295,126	14,344,110
Debentures	-	15,693,318	-	15,693,318
Other financial liabilities ³	-	-	9,344,892	9,344,892
	<u>₩ -</u>	<u>₩98,525,866</u>	<u>₩152,861,311</u>	<u>₩251,387,177</u>

(In millions of Korean won)

	2013			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
Financial assets				
Cash and due from financial institutions ¹	₩2,697,722	₩10,180,432	₩ 852,566	₩ 13,730,720
Loans	-	-	203,279,962	203,279,962
Held-to-maturity financial assets	3,492,584	7,845,229	-	11,337,813
Other financial assets ²	-	-	5,162,649	5,162,649
	<u>₩6,190,306</u>	<u>₩18,025,661</u>	<u>₩209,295,177</u>	<u>₩233,511,144</u>
Financial liabilities				
Deposits ¹	₩ -	₩73,039,926	₩128,172,136	₩201,212,062
Debts ¹	-	156,349	13,412,249	13,568,598
Debentures	-	17,265,172	102,858	17,368,030
Other financial liabilities ³	-	-	10,865,162	10,865,162
	<u>₩ -</u>	<u>₩90,461,447</u>	<u>₩152,552,405</u>	<u>₩243,013,852</u>

¹ The amounts included in Level 2 are the carrying amounts which are reasonable approximations of the fair values.

² The ₩6,529,032 million and ₩5,162,649 million of other financial assets included in Level 3 are the carrying amounts which are reasonable approximations of fair values as of December 31, 2014 and 2013, respectively.

³ The ₩9,331,606 million and ₩10,863,257 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2014 and 2013, respectively.

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Valuation techniques and inputs used in the fair value measurement

Valuation techniques and inputs of financial assets and liabilities which are disclosed by the carrying amounts because it is a reasonable approximation of fair value are not subject to be disclosed.

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 2 as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Fair value		Valuation techniques	Inputs
	2014	2013		
Financial assets				
Held-to-maturity financial assets	₩ 7,870,561	₩ 7,845,229	DCF model	Discount rate
Financial liabilities				
Debentures	₩15,693,318	₩17,265,172	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Fair value		Valuation techniques	Inputs	Unobservable inputs
	2014	2013			
Financial assets					
Cash and due from financial institutions	₩ 1,230,760	₩ 852,566	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	211,830,395	203,279,962	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	<u>₩213,061,155</u>	<u>₩204,132,528</u>			
Financial liabilities					
Deposits	₩129,221,293	₩128,172,136	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	14,295,126	13,412,249	DCF model	Other spread, interest rate	Other spread
Debentures	-	102,858	DCF model	Other spread, implied default probability, interest rate	Other spread, implied default probability
Other financial liabilities	13,286	1,905	DCF model	Other spread, interest rate	Other spread
	<u>₩143,529,705</u>	<u>₩141,689,148</u>			

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6.2 Level 3 of the fair value hierarchy disclosure

6.2.1 Valuation policy and process of Level 3 fair value

The Group uses external, independent and qualified independent third-party valuation service in addition to internal valuation models to determine the fair value of the Group's assets at the end of every reporting period.

Where a reclassification between the levels of the fair value hierarchy occurs for a financial asset or liability, the Group's policy is to recognize such transfers as having occurred at the beginning of the reporting period.

6.2.2 Changes in fair value (Level 3) measured using valuation technique based on unobservable in market

Changes in Level 3 of the fair value hierarchy for the year ended December 31, 2014, are as follows:

<i>(In millions of Korean won)</i>	Financial investments		Net derivatives			
	Available-for-sale financial assets		Derivatives held for trading	Derivatives held for hedging		
	Equity securities					
Beginning balance	₩	1,561,667	₩	(4,654)	₩	(8,390)
Total gains or losses						
- Profit or loss		(112,649)		(1,393)		6,579
- Other comprehensive- income		118,579		-		-
Purchases		154,243		-		-
Sales		(170,591)		-		-
Issues		-		-		-
Settlements		-		7,393		(210)
Transfers into Level 3		24,736		22,651		-
Transfers out of Level 3		(4,615)		-		-
Ending balance	₩	<u>1,571,370</u>	₩	<u>23,997</u>	₩	<u>(2,021)</u>

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Changes in Level 3 of the fair value hierarchy for the year ended December 31, 2013, are as follows:

<i>(In millions of Korean won)</i>	Financial investments		Net derivatives			
	Available-for-sale financial assets		Derivatives held for trading	Derivatives held for hedging		
	Equity securities					
Beginning balance	₩	1,488,102	₩	(18,741)	₩	(6,535)
Total gains or losses						
- Profit or loss		(9,087)		(14,026)		(1,229)
- Other comprehensive-income		53,280		-		-
Purchases		404,423		-		-
Sales		(81,887)		-		-
Issues		-		(107)		-
Settlements		-		28,220		(626)
Transfers into Level 3		441		-		-
Transfers out of Level 3		(293,605)		-		-
Ending balance	₩	1,561,667	₩	(4,654)	₩	(8,390)

In relation to changes in Level 3 of the fair value hierarchy, total gains or losses recognized in profit or loss for the year, and total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting period in the statements of comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014			
	Net income from financial investments at fair value through profit or loss	Other operating income		
Total gains or losses included in profit or loss for the year	₩	(1,393)	₩	(106,070)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting year		7,533		(112,164)

<i>(In millions of Korean won)</i>	2013			
	Net income from financial investments at fair value through profit or loss	Other operating income		
Total gains or losses included in profit or loss for the year	₩	(14,026)	₩	(10,316)
Total gains or losses for the year included in profit or loss for financial instruments held at the end of the reporting year		(3,111)		(15,162)

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6.2.3 Sensitivity analysis of changes in unobservable inputs

Information about fair value measurements using unobservable inputs as of December 31, 2014, is as follows:

(In millions of Korean won)

Financial assets	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Derivatives held for trading			Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	24.20~45.82 -3.27~52.23	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for trading (Stock and index)	₩ 29,031	DCF model, Closed Form, FDM, Monte Carlo Simulation				
Derivatives held for trading (currency)	2,995	DCF model	Interest rate, exchange rate, loss rate from bankruptcy.	loss rate from bankruptcy.	6.78~90.56	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	260	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, Interest rates, volatility of the underlying asset	Volatility of the underlying asset	3.91	Higher the correlation, higher the fair value fluctuation
Available-for-sale						
				Growth rate	0.00~3.00	Higher the growth rate, higher the fair value
				Discount rate	2.29~21.55	Lower the discount rate, higher the fair value
				Volatilities of real estate price	1.10	Higher real estate price, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
		DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value, discount rate of cash flows from rent, recovery rate of receivables' acquisition cost	Discount rate of cash flows from rent Recovery rate of receivables' acquisition cost	6.89 155.83	Lower the discount rate of cash flows from rent, higher the fair value Higher the recovery rate of receivables' acquisition cost, higher the fair value
Available-for-sale equity securities	1,571,370					
	<u>₩1,603,656</u>					

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	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 8,029	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	25.13~41.79 -3.83~68.20	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
Derivatives held for hedging						
Interest	2,281	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset,	Volatility of the underlying asset	2.35~3.91	Higher the volatility, higher the fair value fluctuation
	₩10,310					

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Information about fair value measurements using unobservable inputs as of December 31, 2013, is as follows:

Financial assets	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Derivatives held for trading						
Derivatives held for trading (Stock and index)			Price of the underlying asset, interest rates, volatility of the underlying asset, correlation of the underlying assets(rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets(rates of return on stocks)	10.9~45.64 11.43~79.26	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
	₩13,379	DCF model, Closed Form, FDM, Monte Carlo Simulation				
Derivatives held for trading (currency)	6,490	DCF model	Interest rate, exchange rate, loss rate from bankruptcy	loss rate from bankruptcy	88.24~94.12	Higher the loss rate, decrease the fair value
Derivatives held for hedging						
Interest	452	DCF model, Closed Form, FDM, Monte Carlo Simulation	Interest rates, correlation of the underlying assets(rates of return on interest rates), foreign exchange rate	Correlation of the underlying assets(rates of return on interest rates)	0.03	Higher the correlation, higher the fair value fluctuation
Available-for-sale						
Available-for-sale equity securities	1,561,667	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, volatilities of real estate price, liquidation value, discount rate of cash flows from rent	Growth rate Discount rate Volatilities of real estate price Liquidation value Discount rate of cash flows from rent	0.00 2.86~17.69 0.74 0.00 6.84	Higher the growth rate, higher the fair value Lower the discount rate, higher the fair value Higher real estate price, higher the fair value Higher the liquidation value, higher the fair value Lower the discount rate of cash flows from rent, higher the fair value
	<u>₩1,581,988</u>					

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	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial liabilities						
Derivatives held for trading						
Stock and index			Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying assets (rates of return on stocks), dividend yield	Volatility of the underlying asset Correlation of the underlying assets (rates of return on stocks)	15.24~45.64 17.29~79.26	Higher the volatility, higher the fair value fluctuation Higher the correlation, higher the fair value fluctuation
	₩24,523	DCF model, Closed Form, FDM, Monte Carlo Simulation				
Derivatives held for hedging						
-	-	DCF model, Closed Form, FDM, Monte Carlo Simulation	Price of the underlying asset, interest rates, volatility of the underlying asset	Volatility of the underlying asset	- 3.00~5.28	- Higher the volatility, higher the fair value fluctuation
Interest	8,842					
	<u>₩33,365</u>					

Sensitivity analysis of changes in unobservable inputs

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or unfavorable. Amongst Level 3 financial instruments subject to sensitivity analysis are interest rate-related derivatives and equity-related derivatives whose fair value changes are recognized in profit or loss as well as unlisted equity securities and private equity funds whose fair value changes are recognized in profit or loss or other comprehensive income and loss.

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Sensitivity analyses by type of instrument as a result of varying input parameters are as follows:

(In millions of Korean won)

	2014			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading ¹	₩	310	₩	(307)
Derivatives held for hedging ¹		17		(15)
Available-for-sale financial assets ²		-		-
	₩	327	₩	(322)
Financial liabilities				
Derivatives held for trading ¹	₩	535	₩	(535)
Derivatives held for hedging ¹		86		(76)
	₩	621	₩	(611)

(In millions of Korean won)

	2014			
	Other comprehensive income or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading ¹	₩	-	₩	-
Derivatives held for hedging ¹		-		-
Available-for-sale financial assets ²		360,970		(136,378)
	₩	360,970	₩	(136,378)
Financial liabilities				
Derivatives held for trading ¹	₩	-	₩	-
Derivatives held for hedging ¹		-		-
	₩	-	₩	-

(In millions of Korean won)

	2013			
	Recognition in profit or loss			
	Favorable changes		Unfavorable changes	
Financial assets				
Derivatives held for trading ¹	₩	1,070	₩	(1,082)
Derivatives held for hedging		0		0
Available-for-sale financial assets ²		-		-
	₩	1,070	₩	(1,082)
Financial liabilities				
Derivatives held for trading ¹	₩	1,561	₩	(1,451)
Derivatives held for hedging ¹		345		(333)
	₩	1,906	₩	(1,784)

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	2013	
	Other comprehensive income or loss	
	Favorable changes	Unfavorable changes
Financial assets		
Derivatives held for trading ¹	₩ -	₩ -
Derivatives held for hedging	-	-
Available-for-sale financial assets ²	299,581	(111,457)
	<u>₩ 299,581</u>	<u>₩ (111,457)</u>
Financial liabilities		
Derivatives held for trading ¹	₩ -	₩ -
Derivatives held for hedging ¹	-	-
	<u>₩ -</u>	<u>₩ -</u>

¹ For stock and index-related derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the correlation of rates of return on stocks and the volatility of the underlying asset by $\pm 10\%$. For foreign currency derivatives, the changes in fair value are calculated by shifting the unobservable input parameters, such as the loss given default ratio by $\pm 1\%$. For interest rate-related derivatives, the correlation of the interest rates or the volatility of the underlying asset is shifted by $\pm 10\%$ to calculate the fair value changes.

² For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as correlation between growth rate (0~0.5%) and discount rate, or liquidation value (-1~1%) and discount rate, or recovery rate of receivables' acquisition cost (-1~1%). Sensitivity of fair values to unobservable parameters of private equity fund is practically impossible, but in the case of equity fund composed of real estates, the changes in fair value are calculated by shifting correlation between discount rate of cash flows from rent (-1~1%) and volatilities of real estate price (-1~1%).

6.2.4 Day one gain or loss

If the Group uses a valuation technique that incorporates data not obtained from observable markets for the fair value at initial recognition of financial instruments, there could be a difference between the transaction price and the amount determined using that valuation technique. In these circumstances, the fair value of financial instruments is recognized as the transaction price and the difference is deferred and not recognized in profit or loss, and is amortized by using the straight-line method over the life of the financial instrument. If the fair value of the financial instruments is subsequently determined using observable market inputs, the remaining deferred amount is recognized in profit or loss.

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The aggregate difference yet to be recognized in profit or loss at the beginning and end of the year and a reconciliation of changes in the balance of this difference, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Balance at the beginning of the year (A)	₩ 1,330	₩ 5,998
New transactions (B)	-	34
Amounts recognized in profit or loss during the year (C= a+b)	(1,143)	(4,702)
a. Amortization	(73)	(275)
b. Settlement	(1,070)	(4,427)
Balance at the end of year (A+B+C)	<u>₩ 187</u>	<u>₩ 1,330</u>

6.3 Carrying amounts of financial instruments by category

Financial assets and liabilities are measured at fair value or amortized cost. Measurement policies for each class of financial assets and liabilities are disclosed in Note 3, 'Significant accounting policies'.

The carrying amounts of financial assets and liabilities by category as of December 31, 2014, are as follows:

<i>(In millions of Korean won)</i>	<u>Financial assets at fair value through profit or loss</u>	<u>Loans and receivables</u>	<u>Available- for- sale financial assets</u>	<u>Held-to- maturity financial assets</u>	<u>Derivatives held for hedging</u>	<u>Total</u>
	<u>Held for trading</u>					
Financial assets						
Cash and due from financial institutions	₩ -	₩ 13,973,510	₩ -	₩ -	₩ -	₩ 13,973,510
Financial assets at fair value through profit or loss	7,520,471	-	-	-	-	7,520,471
Derivatives	1,800,664	-	-	-	109,553	1,910,217
Loans	-	211,525,560	-	-	-	211,525,560
Financial investments	-	-	19,134,391	10,124,136	-	29,258,527
Other financial assets	-	6,529,032	-	-	-	6,529,032
	<u>₩ 9,321,135</u>	<u>₩232,028,102</u>	<u>₩19,134,391</u>	<u>₩10,124,136</u>	<u>₩ 109,553</u>	<u>₩270,717,317</u>

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	Financial liabilities at fair value through profit or loss		Financial liability at amortized cost		Derivatives held for hedging	Total		
	Held for trading							
Financial liabilities								
Financial liabilities at fair value through profit or loss	₩	51,650	₩	-	₩	-	₩	51,650
Derivatives		1,755,674		-		3,425		1,759,099
Deposits		-		211,611,432		-		211,611,432
Debts		-		14,297,460		-		14,297,460
Debentures		-		15,250,464		-		15,250,464
Other financial liabilities		-		9,344,847		-		9,344,847
	₩	1,807,324	₩	250,504,203	₩	3,425	₩	252,314,952

The carrying amounts of financial assets and liabilities by category as of December 31, 2013, are as follows:

(In millions of Korean won)

	Financial assets at fair value through profit or loss		Loans and receivables		Available-for-sale financial assets	Held-to-maturity financial assets	Derivatives held for hedging	Total				
	Held for trading											
Financial assets												
Cash and due from financial institutions	₩	-	₩	13,730,250	₩	-	₩	-	₩	13,730,250		
Financial assets at fair value through profit or loss		7,069,875		-		-		-		7,069,875		
Derivatives		1,581,436		-		-		137,446		1,718,882		
Loans		-		203,123,755		-		-		203,123,755		
Financial investments		-		-		19,075,086		11,011,518		30,086,604		
Other financial assets		-		5,162,649		-		-		5,162,649		
	₩	8,651,311	₩	222,016,654	₩	19,075,086	₩	11,011,518	₩	137,446	₩	260,892,015

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	Financial liabilities at fair value through profit or loss	Financial liability at amortized cost	Derivatives held for hedging	Total
	<u>Held for trading</u>	<u>amortized cost</u>	<u>held for hedging</u>	<u>Total</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 40,067	₩ -	₩ -	₩ 40,067
Derivatives	1,561,392	-	204,642	1,766,034
Deposits	-	200,967,688	-	200,967,688
Debts	-	13,569,923	-	13,569,923
Debentures	-	16,212,758	-	16,212,758
Other financial liabilities	-	10,865,130	-	10,865,130
	<u>₩ 1,601,459</u>	<u>₩ 241,615,499</u>	<u>₩ 204,642</u>	<u>₩243,421,600</u>

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6.4 Transfer of financial assets

6.4.1 Transferred financial assets that are derecognized in their entirety

The Group transferred loans and other financial assets that are derecognized in their entirety to SPEs, while the maximum exposure to loss(carrying amount) from its continuing involvement in the derecognized financial assets as of December 31, 2014 and 2013, are as follows :

(In millions of Korean won)

		2014				
		Classification of financial instruments	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement in statement of financial position	
Type of continuing involvement						
KR ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩	4,921	₩	4,921
KR 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets		22,219		22,219
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets		11,211		11,211
AP 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables		9,762		9,842
	Subordinated debt	Available-for-sale financial assets		17,346		17,346
Discovery 1st Securitization Specialty Co., Ltd.	Senior debt	Loans and receivables		1,175		1,194
	Subordinated debt	Available-for-sale financial assets		22,591		22,591
EAK 2nd Securitization Specialty Co., Ltd. ¹	Senior debt	Loans and receivables		19,806		20,026
	Subordinated debt	Available-for-sale financial assets		38,207		38,207
FK 1411 ABS Ltd. ²	Senior debt	Loans and receivables		44,966		44,917
	Subordinated debt	Available-for-sale financial assets		47,600		47,600
			₩	239,804	₩	240,074

¹ Recognized net gain from transferring loans to the SPEs amounts to ₩6,924 million.

² Recognized net loss from transferring loans to the SPEs amounts to ₩27,365 million.

³ In addition to the above, the recovered portion in excess of the consideration paid attributable to adjustments based on the agreement with the National Happiness Fund for non-performing loans amounts to ₩3,145 million.

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	Type of continuing involvement	Classification of financial instruments	2013	
			Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement in statement of financial position
KR ABS Ltd.	Mezzanine / subordinated debt	Available-for-sale financial assets	₩ 11,434	₩ 11,434
KR 2nd Securitization Specialty Co., Ltd. ¹	Senior debt	Loans and receivables	26,065	26,227
	Subordinated debt	Available-for-sale financial assets	33,017	33,017
EAK ABS Ltd. ²	Subordinated debt	Available-for-sale financial assets	35,020	35,020
AP 1st Securitization Specialty Co., Ltd. ³	Senior debt	Loans and receivables	67,326	67,353
	Subordinated debt	Available-for-sale financial assets	16,669	16,669
Discovery 1st Securitization Specialty Co., Ltd. ⁴	Senior debt	Loans and receivables	23,494	23,547
	Subordinated debt	Available-for-sale financial assets	21,454	21,454
			<u>₩ 234,479</u>	<u>₩ 234,721</u>

¹ Recognized net loss from transferring loans to the SPEs amounts to ₩24,589 million.

² Recognized net loss from transferring loans to the SPEs amounts to ₩2,480 million.

³ Recognized net loss from transferring loans to the SPEs amounts to ₩18,556 million.

⁴ Recognized net loss from transferring loans to the SPEs amounts to ₩37,975 million.

⁵ In addition to the above, there were gains from the transfer of non-performing loans to the National Happiness Fund ('the Fund') amounting to ₩18,111 million as of December 31, 2013. According to the agreement with the Fund, when the recovered amounts exceed the consideration paid by the Fund for the non-performing loans, the excess amount is to be reimbursed to the Group.

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6.4.2 Transferred financial assets that are not derecognized in their entirety

The Group securitized the loans and received the subordinated debts as part of consideration related to the securitization to provide credit enhancements to other senior debtors, and this transaction was recognized by the Group as collateralized debts. As of December 31, 2014, there is no related transaction, and the liabilities and related securitized assets as of December 31, 2013, are as follows:

(In millions of Korean won)

	2013					
	KB Mortgage Loan 1st Securitization Specialty Co., Ltd.		KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd.		KH First Co., Ltd. ¹	
Carrying amount of assets (underlying assets)	₩	295,679	₩	8,291	₩	99,763
Carrying amount of related liabilities		193,062		1,958		100,900
For those liabilities that have recourse only to the transferred assets:						
Fair value of assets (underlying assets)	₩	295,679	₩	8,291	₩	-
Fair value of related liabilities (Senior Debts)		192,972		1,958		-
Fair value net position	₩	102,707	₩	6,333	₩	-

¹ According to purchase agreements with third-party investors, the Group provides purchase commitments to third-party investors over the associated liabilities. Furthermore, as the third-party investors also have right of recourse to the asset-backed security, the Group did not disclose the fair value of the above liabilities.

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6.4.3 Securities under repurchase agreements and loaned securities

The Group continues to recognize the financial assets related to repurchase agreements and securities lending transactions on the statements of financial position since those transactions are not qualified for derecognition even though the Group transfers the financial assets. A financial asset is sold under a reverse repurchase agreement to repurchase the same asset at a fixed price, or loaned under a securities lending agreement to be returned as the same asset. Thus, the Group retains substantially all the risks and rewards of ownership of the financial asset. The amounts of transferred assets and related liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	
	Carrying amount of transferred asset	Carrying amount of related liabilities
Securities under repurchase agreements	₩ 164,382	₩ 148,869
Loaned securities	59,120	-
Government and public bonds	59,120	-
Stocks	-	-
	<u>₩ 223,502</u>	<u>₩ 148,869</u>

(In millions of Korean won)

	2013	
	Carrying amount of transferred asset	Carrying amount of related liabilities
Securities under repurchase agreements	₩ 416,634	₩ 382,779
Loaned securities	457,838	-
Government and public bonds	447,427	-
Stocks	10,411	-
	<u>₩ 874,472</u>	<u>₩ 382,779</u>

6.5 Offsetting financial assets and financial liabilities

The Group enters into International Derivatives Swaps and Dealers Association (“ISDA”) master netting agreements and other arrangements with the Group’s derivative and spot exchange counterparties. Similar netting agreements are also entered into with the Group’s reverse repurchase, securities and others. Pursuant to these agreements, in the event of default by one party, contracts are to be terminated and receivables and payables are to be offset. Further, as the law allows for the right to offset, domestic uncollected receivables balances and domestic accrued liabilities balances are shown in its net settlement balance in the statement of financial position.

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The details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Derivatives held for trading	₩ 1,798,280	₩ -	₩ 1,798,280	₩(1,472,239)	₩ (1,635)	₩ 324,406
Derivatives held for hedging	109,553	-	109,553	(15,688)	-	93,865
Receivable spot exchange	2,343,308	-	2,343,308	(2,342,116)	-	1,192
Reverse repurchase, securities borrowing and similar agreements	3,529,900	-	3,529,900	(3,529,900)	-	-
Other financial instruments	18,249,521	(16,161,647)	2,087,874	-	-	2,087,874
	<u>₩26,030,562</u>	<u>₩ (16,161,647)</u>	<u>₩ 9,868,915</u>	<u>₩(7,359,943)</u>	<u>₩ (1,635)</u>	<u>₩2,507,337</u>

(In millions of Korean won)

	2013					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Derivatives held for trading	₩ 1,578,868	₩ -	₩ 1,578,868	₩(1,186,724)	₩ (1,850)	₩ 390,294
Derivatives held for hedging	137,446	-	137,446	(35,550)	-	101,896
Receivable spot exchange	2,256,532	-	2,256,532	(2,255,085)	-	1,447
Reverse repurchase, securities borrowing and similar agreements ¹	4,173,200	-	4,173,200	(4,173,200)	-	-
Other financial instruments	16,095,694	(15,371,808)	723,886	-	-	723,886
	<u>₩24,241,740</u>	<u>₩ (15,371,808)</u>	<u>₩ 8,869,932</u>	<u>₩(7,650,559)</u>	<u>₩ (1,850)</u>	<u>₩1,217,523</u>

¹ Includes a portion of the securities loaned.

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The details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,755,221	₩ -	₩ 1,755,221	₩(1,316,268)	₩ -	₩ 438,953
Derivatives held for hedging	3,425	-	3,425	(3,013)	-	412
Payable spot exchange	2,343,234	-	2,343,234	(2,342,116)	-	1,118
Repurchase, securities lending and similar agreements ¹	148,870	-	148,870	(148,870)	-	-
Other financial instruments	16,284,444	(16,161,647)	122,797	(122,797)	-	-
	<u>₩20,535,194</u>	<u>₩ (16,161,647)</u>	<u>₩ 4,373,547</u>	<u>₩(3,933,064)</u>	<u>₩ -</u>	<u>₩ 440,483</u>

(In millions of Korean won)

	2013					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives held for trading	₩ 1,559,374	₩ -	₩ 1,559,374	₩ (987,963)	₩ -	₩ 571,411
Derivatives held for hedging	204,642	-	204,642	(16,320)	-	188,322
Payable spot exchange	2,256,147	-	2,256,147	(2,255,085)	-	1,062
Repurchase, securities lending and similar agreements ¹	382,779	-	382,779	(382,779)	-	-
Other financial instruments	16,358,240	(15,371,808)	986,432	(946,800)	-	39,632
	<u>₩20,761,182</u>	<u>₩ (15,371,808)</u>	<u>₩ 5,389,374</u>	<u>₩(4,588,947)</u>	<u>₩ -</u>	<u>₩ 800,427</u>

¹ Includes repurchase agreements sold to customers.

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7. Due from financial institutions

The details of due from financial institutions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		Financial Institutions	Interest rate(%)	2014	2013
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00~2.03	₩ 6,283,230	₩ 6,709,634
	Due from banking institutions	NH Bank and others	0.00~2.60	585,028	308,740
	Due from others	KB Investment & Securities Co., Ltd. and others	1.00	<u>3,013,288</u>	<u>2,615,369</u>
				<u>9,881,546</u>	<u>9,633,743</u>
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	-	898,437	855,388
	Time deposits in foreign currencies	Bank of Communications and others	0.11~6.70	613,153	528,419
	Due from others	Bank of Japan and others	-	<u>36,169</u>	<u>14,978</u>
					<u>1,547,759</u>
				<u>₩11,429,305</u>	<u>₩11,032,528</u>

Due from financial institutions, classified by type of financial institution as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 6,283,230	₩ 225,393	₩ 6,508,623
Other banking institutions	585,028	1,303,794	1,888,822
Other financial institutions	<u>3,013,288</u>	<u>18,572</u>	<u>3,031,860</u>
	<u>₩ 9,881,546</u>	<u>₩ 1,547,759</u>	<u>₩ 11,429,305</u>

(In millions of Korean won)

	2013		
	In Korean won	In foreign currencies	Total
Bank of Korea	₩ 6,709,634	₩ 410,328	₩ 7,119,962
Other banking institutions	308,740	976,790	1,285,530
Other financial institutions	<u>2,615,369</u>	<u>11,667</u>	<u>2,627,036</u>
	<u>₩ 9,633,743</u>	<u>₩ 1,398,785</u>	<u>₩ 11,032,528</u>

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Restricted due from financial institutions as of December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>		Financial Institution	2014	2013	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩6,283,230	₩6,709,634	Bank of Korea Act Agreement for allocation of deposit Derivatives margin account and others
	Due from banking institutions	Hana Bank and others	279,200	261,000	
	Due from others	KB Investment & Securities Co., Ltd. and others	1,668	1,703	
			<u>6,564,098</u>	<u>6,972,337</u>	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	293,067	482,296	Bank of Korea Act and others New York State Banking Law Derivatives margin account and others
	Time deposits in foreign currencies	Bank of Communications	16,488	10,553	
	Due from others	Woori Futures Co., Ltd. and others	4,022	4,876	
			<u>313,577</u>	<u>497,725</u>	
			<u>₩6,877,675</u>	<u>₩7,470,062</u>	

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8. Assets pledged as collateral

The details of assets pledged as collateral as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

Assets pledged	Pledgee	2014		Reason of pledge
		Carrying amount	Collateralized amount	
Financial assets held for trading	Korea Securities			Repurchase agreements
	Depository and others	₩ 82,990	₩ 83,000	
	Samsung Futures Inc. and others	9,861	9,800	Derivatives transitions
	Others	17,864	17,720	Settlement of Korea Exchange and others
		<u>110,715</u>	<u>110,520</u>	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,308	3,298	Derivatives transitions
Held-to-maturity financial assets	Korea Securities			Repurchase agreements
	Depository and others	1,460,932	1,452,000	
	Bank of Korea	993,853	990,000	Borrowings from Bank of Korea
	Bank of Korea	1,440,821	1,416,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	339,107	338,492	Derivatives transitions
	Others	254,980	253,500	Others
		<u>4,489,693</u>	<u>4,450,792</u>	
		<u>₩ 4,603,716</u>	<u>₩ 4,564,610</u>	

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(In millions of Korean won)

		2013		
Assets pledged	Pledgee	Carrying amount	Collateralized amount	Reason of pledge
Financial assets held for trading	Korea Securities Depository and others	₩ 207,812	₩ 208,650	Repurchase agreements
	Samsung Futures Inc. and others	10,162	10,100	Derivatives transitions
		<u>217,974</u>	<u>218,750</u>	
Available-for-sale financial assets	Samsung Futures Inc. and others	3,254	3,166	Derivatives transitions
	Korea Securities Depository and others	3,577,052	3,572,000	Repurchase agreements
Held-to-maturity financial assets	Bank of Korea	617,250	610,000	Borrowings from Bank of Korea
	Bank of Korea	956,284	946,800	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	325,616	325,521	Derivatives transitions
	Others	258,615	258,500	Others
		<u>5,734,817</u>	<u>5,712,821</u>	
Mortgage loans	Others	846,000	843,127	Covered Bond
		<u>₩ 6,802,045</u>	<u>₩ 6,777,864</u>	

The fair value of collateral available to sell or repledge, and collateral sold or repledged, regardless of debtor's default as of December 31, 2014 and 2013, is as follows:

(In millions of Korean won)

		2014	
		Fair value of collateral	Fair value of collateral sold or repledged
Securities		₩ 3,598,732	₩ -

(In millions of Korean won)

		2013	
		Fair value of collateral	Fair value of collateral sold or repledged
Securities		₩ 4,258,909	₩ -

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9. Derivative financial instruments and hedge accounting

The Group's derivative operations focus on addressing the needs of the Group's corporate clients to hedge their risk exposure and to hedge the Group's risk exposure that results from such client contracts. The Group also engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures that arise from the Group's own assets and liabilities. In addition, the Group engages in proprietary trading of derivatives within the Group's regulated open position limits.

The Group provides and trades a range of derivatives products, including:

- Interest rate swaps, relating to interest rate risks in Korean won.
- Cross-currency swaps, forwards and options relating to foreign exchange rate risks.
- Stock price index options linked with the KOSPI index.

In particular, the Group uses cross currency swaps, interest rate swaps and others to hedge the risk of changes in fair values due to changes in interest rates and foreign exchange rates of subordinated debts in Korean won, structured debts and financial debentures in foreign currencies.

The details of derivative financial instruments for trading as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Notional amount	Assets	Liabilities
Interest rate			
Futures ¹	₩ 290,290	₩ -	₩ -
Swaps	101,441,724	923,094	956,130
Options	8,398,000	86,277	128,185
	<u>110,130,014</u>	<u>1,009,371</u>	<u>1,084,315</u>
Currency			
Forwards	₩ 21,256,930	₩ 340,246	₩ 214,759
Futures ¹	554,794	-	-
Swaps	18,430,843	415,842	441,696
Options	616,977	6,057	6,078
	<u>40,859,544</u>	<u>762,145</u>	<u>662,533</u>
Stock and index			
Futures ¹	₩ 76,298	₩ -	₩ -
Swaps	45,135	26,648	1,166
Options	114,617	2,500	7,660
	<u>236,050</u>	<u>29,148</u>	<u>8,826</u>
Others	-	-	-
	<u>₩ 151,225,608</u>	<u>₩ 1,800,664</u>	<u>₩ 1,755,674</u>

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	2013		
	Notional amount	Assets	Liabilities
Interest rate			
Futures ¹	₩ 581,604	₩ -	₩ -
Swaps	141,111,150	581,343	638,451
Options	8,285,091	45,063	85,906
	<u>149,977,845</u>	<u>626,406</u>	<u>724,357</u>
Currency			
Forwards	₩ 22,923,249	₩ 241,804	₩ 289,368
Futures ¹	360,143	-	-
Swaps	17,414,405	693,115	503,663
Options	273,745	2,428	1,492
	<u>40,971,542</u>	<u>937,347</u>	<u>794,523</u>
Stock and index			
Futures ¹	₩ 59,381	₩ -	₩ -
Swaps	73,658	11,051	12,170
Options	1,110,131	6,278	29,965
	<u>1,243,170</u>	<u>17,329</u>	<u>42,135</u>
Others	<u>60,000</u>	<u>354</u>	<u>377</u>
	<u>₩ 192,252,557</u>	<u>₩ 1,581,436</u>	<u>₩ 1,561,392</u>

¹ A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The details of derivatives designated as fair value hedging instruments as of December 31, 2014, are as follows:

(In millions of Korean won)

	Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 2,179,779	₩ 109,293	₩ 1,144
Currency			
Swap	-	-	-
Other	<u>140,000</u>	<u>260</u>	<u>2,281</u>
	<u>₩ 2,319,779</u>	<u>₩ 109,553</u>	<u>₩ 3,425</u>

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The details of derivatives designated as fair value hedging instruments as of December 31, 2013, are as follows:

<i>(In millions of Korean won)</i>	Notional amount	Assets	Liabilities
Interest rate			
Swaps	₩ 1,951,013	₩ 137,446	₩ -
Currency			
Swap	1,055,300	-	195,800
Other	140,000	-	8,842
	<u>₩ 3,146,313</u>	<u>₩ 137,446</u>	<u>₩ 204,642</u>

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Gains(losses) on hedging instruments	₩ (28,269)	₩ (49,047)
Gains(losses) on the hedged item attributable to the hedged risk	42,393	81,428
	<u>₩ 14,124</u>	<u>₩ 32,381</u>

10. Loans

Loans as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Loans	₩ 212,907,660	₩ 205,050,752
Deferred loan origination fees and costs	545,497	463,262
Allowances	(1,927,597)	(2,390,259)
Carrying amount	<u>₩ 211,525,560</u>	<u>₩ 203,123,755</u>

Loans to banks as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Loans	₩ 6,208,391	₩ 6,335,056
Allowances	-	(26)
Carrying amount	<u>₩ 6,208,391</u>	<u>₩ 6,335,030</u>

Kookmin Bank and Subsidiaries
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Loans to customers other than banks as of December 31, 2014 and 2013, consist of:

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Loans in Korean won	₩ 112,193,456	₩ 84,006,216	₩ 196,199,672
Loans in foreign currencies	50,047	2,574,041	2,624,088
Domestic import usance bills	-	3,693,951	3,693,951
Off-shore funding loans	-	664,794	664,794
Call loans	-	290,243	290,243
Bills bought in Korean won	-	6,678	6,678
Bills bought in foreign currencies	-	1,958,251	1,958,251
Guarantee payments under payment guarantee	-	12,975	12,975
Reverse repurchase agreements	-	1,079,900	1,079,900
Privately placed bonds	-	714,214	714,214
	<u>112,243,503</u>	<u>95,001,263</u>	<u>207,244,766</u>
Proportion (%)	54.16	45.84	100.00
Allowances	<u>(476,974)</u>	<u>(1,450,623)</u>	<u>(1,927,597)</u>
	<u>₩ 111,766,529</u>	<u>₩ 93,550,640</u>	<u>₩ 205,317,169</u>

(In millions of Korean won)

	2013		
	Retail	Corporate	Total
Loans in Korean won	₩ 104,332,073	₩ 83,440,778	₩ 187,772,851
Loans in foreign currencies	98,614	2,956,418	3,055,032
Domestic import usance bills	-	2,978,478	2,978,478
Off-shore funding loans	-	669,602	669,602
Call loans	-	674,399	674,399
Bills bought in Korean won	-	14,243	14,243
Bills bought in foreign currencies	-	1,588,065	1,588,065
Guarantee payments under payment guarantee	-	38,319	38,319
Reverse repurchase agreements	-	1,683,200	1,683,200
Privately placed bonds	-	704,769	704,769
	<u>104,430,687</u>	<u>94,748,271</u>	<u>199,178,958</u>
Proportion (%)	52.43	47.57	100.00
Allowances	<u>(572,286)</u>	<u>(1,817,947)</u>	<u>(2,390,233)</u>
	<u>₩ 103,858,401</u>	<u>₩ 92,930,324</u>	<u>₩ 196,788,725</u>

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The changes in deferred loan origination fees and costs for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Increase	Decrease	Other	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 495,619	₩ 355,270	₩ 278,781	₩ -	₩ 572,108
Other origination costs	378	1,100	880	-	598
	<u>495,997</u>	<u>356,370</u>	<u>279,661</u>	<u>-</u>	<u>572,706</u>
Deferred loan origination fees					
Loans in Korean won	25,064	4,579	7,650	-	21,993
Other origination fees	7,671	1,073	3,535	7	5,216
	<u>32,735</u>	<u>5,652</u>	<u>11,185</u>	<u>7</u>	<u>27,209</u>
	<u>₩ 463,262</u>	<u>₩ 350,718</u>	<u>₩ 268,476</u>	<u>₩ (7)</u>	<u>₩ 545,497</u>

(In millions of Korean won)

	2013				
	Beginning	Increase	Decrease	Other	Ending
Deferred loan origination costs					
Loans in Korean won	₩ 460,855	₩ 310,770	₩ 276,006	₩ -	₩ 495,619
Other origination costs	343	636	601	-	378
	<u>461,198</u>	<u>311,406</u>	<u>276,607</u>	<u>-</u>	<u>495,997</u>
Deferred loan origination fees					
Loans in Korean won	33,056	2,903	10,895	-	25,064
Other origination fees	6,527	3,872	2,709	(19)	7,671
	<u>39,583</u>	<u>6,775</u>	<u>13,604</u>	<u>(19)</u>	<u>32,735</u>
	<u>₩ 421,615</u>	<u>₩ 304,631</u>	<u>₩ 263,003</u>	<u>₩ 19</u>	<u>₩ 463,262</u>

11. Allowances for Loan Losses

The changes in the allowances for loan losses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Retail	Corporate	Total
Beginning	₩ 572,286	₩ 1,817,973	₩ 2,390,259
Written-off	(521,422)	(1,068,490)	(1,589,912)
Recoveries from written-off loans	132,296	257,972	390,268
Sale	(6,726)	(61,255)	(67,981)
Other changes	(6,555)	(68,443)	(74,998)
Provision ¹	307,095	572,866	879,961
Ending	<u>₩ 476,974</u>	<u>₩ 1,450,623</u>	<u>₩ 1,927,597</u>

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(In millions of Korean won)

	2013		
	Retail	Corporate	Total
Beginning	₩ 680,535	₩ 2,189,157	₩ 2,869,692
Written-off	(580,235)	(1,097,057)	(1,677,292)
Recoveries from written-off loans	126,572	146,575	273,147
Sale	(8,483)	(74,979)	(83,462)
Other changes	(7,310)	(52,232)	(59,542)
Provision ¹	361,207	706,509	1,067,716
Ending	<u>₩ 572,286</u>	<u>₩ 1,817,973</u>	<u>₩ 2,390,259</u>

¹ Provision for credit losses in statements of comprehensive income also include provision(reversal) for unused commitments and guarantees (Note 22), provision(reversal) for financial guarantee contracts (Note 22), and provision(reversal) for other financial assets (Note 17).

The amounts of written-off loans, over which the Group still has a right to claim against the borrowers and guarantors due to unexpired statute of limitations, are ₩13,264,264 million and ₩12,013,004 million as of December 31, 2014 and 2013, respectively.

The coverage ratios of allowances for loan losses as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Loans	₩ 213,453,157	₩ 205,514,014
Allowances for loan losses	1,927,597	2,390,259
Ratio (%)	0.90	1.16

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12. Financial assets at fair value through profit or loss and Financial Investments

The details of financial assets at fair value through profit or loss and financial investments as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Financial assets held for trading		
Debt securities:		
Government and public bonds	₩ 2,035,150	₩ 1,760,325
Financial bonds	3,581,035	3,156,497
Corporate bonds	1,204,083	1,469,800
Asset-backed securities	282,011	281,800
Others	266,504	204,223
Equity securities:		
Stocks	60,122	93,122
Beneficiary certificates	40,221	63,856
Others	51,345	40,252
Total financial assets at fair value through profit or loss	<u>₩ 7,520,471</u>	<u>₩ 7,069,875</u>
Available-for-sale financial assets		
Debt securities:		
Government and public bonds	₩ 4,214,383	₩ 6,528,440
Financial bonds	6,259,941	5,201,359
Corporate bonds	4,743,295	3,508,786
Asset-backed securities	1,198,281	1,193,201
Equity securities:		
Stocks	1,788,178	1,690,384
Equity investments	45,578	73,874
Beneficiary certificates	884,235	878,792
Others	500	250
	<u>19,134,391</u>	<u>19,075,086</u>
Held-to-maturity financial assets		
Debts securities:		
Government and public bonds	2,724,716	3,685,150
Financial bonds	1,047,049	770,283
Corporate bonds	5,880,095	6,189,311
Asset-backed securities	472,276	366,774
	<u>10,124,136</u>	<u>11,011,518</u>
Total financial investments	<u>₩29,258,527</u>	<u>₩30,086,604</u>

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The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (180,784)	₩ -	₩ (180,784)
Held-to-maturity financial assets	-	-	-
	<u>₩ (180,784)</u>	<u>₩ -</u>	<u>₩ (180,784)</u>

(In millions of Korean won)

	2013		
	Impairment	Reversal	Net
Available-for-sale financial assets	₩ (155,194)	₩ -	₩ (155,194)
Held-to-maturity financial assets	(5)	-	(5)
	<u>₩ (155,199)</u>	<u>₩ -</u>	<u>₩ (155,199)</u>

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13. Investments in associates

Investments in associates as of December 31, 2014 and 2013, are as follows:

(in millions of Korean won)

	2014					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund ¹	12.61	₩ 122,623	₩ 125,119	₩ 125,119	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	4,222	4,222	Credit information	Korea
UAMCO., Ltd. ¹	17.50	85,050	114,240	121,182	Other finance	Korea
JSC Bank CenterCredit						
Ordinary shares ²	29.56					
Preference shares ²	93.15	954,104	36,763	29,279	Banking	Kazakhstan
KB12-1 Venture Investment Partnership ³	80.00	28,800	29,119	29,119	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	18,981	15,705	16,675	Investment finance	Korea
United PF 1st Recovery Private Equity Fund ¹	17.72	191,617	203,270	198,089	Other finance	Korea
CH Engineering Co., Ltd.	41.73	-	178	20	Architectural design and related service	Korea
Shinla Construction Co., Ltd.	20.17	-	(502)	-	Specialty construction	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	99,818	98,562	Investment finance	Korea
Incheon Bridge Co., Ltd. ¹	14.99	24,677	(1,716)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	21,000	18,563	20,663	Investment finance	Korea
Future Planning KB Start-up Creation Fund ³	50.00	4,000	3,825	4,000	Investment finance	Korea
Terra Corporation	24.06	-	(99)	-	Manufacture of fabricated and processed metal products	Korea
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,402	20,402	Investment finance	Korea
		<u>₩1,564,476</u>	<u>₩ 668,907</u>	<u>₩ 667,332</u>		

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(in millions of Korean won)

	2013					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund ¹	12.61	121,817	124,968	124,968	Investment finance	Korea
Korea Credit Bureau Co., Ltd. ¹	9.00	4,500	4,185	4,185	Credit information	Korea
UAMCO., Ltd. ¹	17.50	85,050	139,286	150,826	Other finance	Korea
JSC Bank CenterCredit						
Ordinary share ²	29.56	954,104	51,989	68,110		
Preference share ²	93.15				Banking	Kazakhstan
KB06-1 Venture Investment Partnership ³	50.00	2,500	861	861	Investment finance	Korea
KB08-1 Venture Investment Partnership ³	66.67	5,300	9,345	9,345	Investment finance	Korea
KB12-1 Venture Investment Partnership ³	80.00	23,200	22,817	23,200	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	28,548	27,898	28,548	Investment finance	Korea
United PF 1st Recovery Private Equity Fund ¹	17.72	191,617	203,618	197,941	Other finance	Korea
CH Engineering Co., Ltd.					Architectural design and related service	Korea
	41.73	-	64	-		
Shinla Construction Co., Ltd. Kores Co., Ltd. ⁴	20.17	-	(468)	-	Specialty construction	Korea
					Manufacture of automobile components	Korea
	10.39	634	1,925	1,505		
KB GwS Private Securities Investment Trust	20.93	89,124	99,044	97,788	Investment finance	Korea
					Operation of highways and related facilities	Korea
Incheon Bridge Co., Ltd. ¹	14.99	24,677	(429)	-		
KoFC POSCO HANHWA KB shared growth Private Equity Fund	20.00	11,220	9,296	10,329	Investment finance	Korea
Future Planning KB Start-up Creation Fund ³	80.00	4,000	4,030	4,030	Investment finance	Korea
Terra Corporation					Manufacture of fabricated and processed metal products	Korea
	24.06	-	20	4		
Ssangyong Engineering & Construction Co., Ltd. ⁴					Office and commercial building construction	Korea
	15.64	28,779	2,490	-		
KB Star office Private real estate Investment Trust No.1	21.05	20,000	20,347	20,347	Investment finance	Korea
		<u>₩1,595,070</u>	<u>₩ 721,286</u>	<u>₩ 741,987</u>		

¹ As of December 31, 2014 and 2013, the Group is represented in the governing bodies of its associates. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

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² The fair value of ordinary shares of JSC Bank CenterCredit, reflecting the quoted market price as of December 31, 2014 and 2013, amounts to ₩42,945 million and ₩57,476 million, respectively. The Group determined that ordinary shares and convertible preference shares issued by JSC Bank CenterCredit are the same in economic substance except for voting rights, and therefore, the equity method of accounting is applied on the basis of single ownership ratio of 41.93%, calculated based on ordinary and convertible preference shares held by the Group against the total outstanding ordinary and convertible preference shares issued by JSC Bank CenterCredit.

³ As of December 31, 2014 and 2013, the Group is a partner in a limited partnership and does not have the right to control over these entities.

⁴ Where the Group has acquired shares of entities through debt-for-equity swaps, the Group is represented in the creditor council. Therefore, the Group has significant influence over the decision-making process relating to their financial and business policies.

Summarized financial information on the main associates, the carrying amount of the Group's interest in the main associates and dividends received from the main associates are as follows:

(In millions of Korean won)

	2014 ¹						
	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 994,768	₩ 2,158	₩ 999,430	₩ 992,610	₩ 125,119	₩ -	₩125,119
Korea Credit Bureau Co., Ltd.	54,717	7,806	10,000	46,911	4,222	-	4,222
UAMCO., Ltd.	4,357,490	3,688,589	2,430	668,901	114,240	6,942	121,182
JSC Bank CenterCredit	6,278,391	6,156,255	546,794	122,136	36,763	(7,484)	29,279
KB12-1 Venture Investment Partnership	36,978	580	36,000	36,398	29,119	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	52,499	148	63,270	52,351	15,705	970	16,675
United PF 1st Recovery Private Equity Fund	1,187,406	40,240	1,081,400	1,147,166	203,270	(5,181)	198,089
CH Engineering Co., Ltd. ²	1,086	659	158	427	178	(158)	20
KB GwS Private Securities Investment Trust	477,646	738	425,814	476,908	99,818	(1,256)	98,562
Incheon Bridge Co., Ltd.	727,659	739,105	164,621	(11,446)	(1,716)	1,716	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	94,731	1,917	105,000	92,814	18,563	2,100	20,663
Future Planning KB Start-up Creation Fund	8,040	390	8,000	7,650	3,825	175	4,000
KB Star office Private real estate Investment Trust No.1	218,250	121,341	95,000	96,909	20,402	-	20,402

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	2014 ¹				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 53,100	₩ 44,616	₩ -	₩ 44,616	₩ 6,280
Korea Credit Bureau Co., Ltd.	46,111	114	-	114	-
UAMCO., Ltd.	548,990	57,438	-	57,438	35,041
JSC Bank CenterCredit	425,506	(22,973)	(26,987)	(49,960)	2
KB06-1 Venture Investment Partnership	570	558	(32)	526	-
KB08-1 Venture Investment Partnership	4,368	3,008	(455)	2,553	4,946
KB12-1 Venture Investment Partnership	3,302	647	230	877	-
KoFC KBIC Frontier Champ 2010-5(PEF)	16,942	957	(3,249)	(2,292)	1,938
United PF 1st Recovery Private Equity Fund	105,369	(1,962)	-	(1,962)	-
CH Engineering Co., Ltd. ²	787	251	-	251	-
KB GwS Private Securities Investment Trust	39,207	38,207	-	38,207	7,222
Incheon Bridge Co., Ltd.	83,578	(8,185)	-	(8,185)	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	9,228	3,771	(6,337)	(2,566)	-
Future Planning KB Start-up Creation Fund	123	(330)	-	(330)	45
KB Star office Private real estate Investment Trust No.1	17,413	8,585	-	8,585	1,752

¹ The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

² As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2014 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

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(In millions of Korean won)

2013¹

	Total assets	Total liabilities	Paid-in capital	Equity	Share of net asset amount	Unrealized gains and losses and others	Carrying amount
Balhae Infrastructure Fund	₩ 993,571	₩ 2,157	₩ 993,030	₩ 991,414	₩ 124,968	₩ -	₩124,968
Korea Credit Bureau Co., Ltd.	63,043	16,542	10,000	46,501	4,185	-	4,185
UAMCO., Ltd.	4,365,097	3,567,972	2,430	797,125	139,286	11,540	150,826
JSC Bank CenterCredit	7,083,662	6,903,416	546,794	180,246	51,989	16,121	68,110
KB06-1 Venture Investment Partnership	1,722	-	5,000	1,722	861	-	861
KB08-1 Venture Investment Partnership	14,024	6	7,950	14,018	9,345	-	9,345
KB12-1 Venture Investment Partnership	28,524	3	29,000	28,521	22,817	383	23,200
KoFC KBIC Frontier Champ 2010-5(PEF)	93,367	375	95,160	92,992	27,898	650	28,548
United PF 1st Recovery Private Equity Fund	1,159,220	10,092	1,081,400	1,149,128	203,618	(5,677)	197,941
CH Engineering Co., Ltd. ²	917	763	158	154	64	(64)	-
Kores Co., Ltd. ³	92,937	80,914	11,099	12,023	1,925	(420)	1,505
KB GwS Private Securities Investment Trust	473,946	738	425,814	473,208	99,044	(1,256)	97,788
Incheon Bridge Co., Ltd. KoFC POSCO HANHWA	740,321	743,182	164,621	(2,861)	(429)	429	-
KB shared growth Private Equity Fund	48,192	1,712	56,100	46,480	9,296	1,033	10,329
Future Planning KB Start- up Creation Fund	5,038	1	5,000	5,037	4,030	-	4,030
Terra Corporation ³	1,659	1,576	254	83	20	(16)	4
Ssangyong Engineering & Construction Co., Ltd. ³	1,359,658	1,343,734	73,045	15,924	2,490	(2,490)	-
KB Star office Private real estate Investment Trust No.1	217,557	120,910	95,000	96,647	20,347	-	20,347

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	2013 ¹				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	₩ 57,754	₩ 49,685	₩ -	₩ 49,685	₩ 6,299
Korea Credit Bureau Co., Ltd.	51,571	4,909	-	4,909	-
UAMCO., Ltd.	708,035	105,085	-	105,085	-
JSC Bank CenterCredit	532,768	(497,885)	(5,732)	(503,617)	3
KB06-1 Venture Investment Partnership	89	(151)	32	(119)	-
KB08-1 Venture Investment Partnership	2,707	266	455	721	3,000
KB12-1 Venture Investment Partnership	2,239	(163)	(239)	(402)	-
KoFC KBIC Frontier Champ 2010-5(PEF)	3,368	(2,454)	7,064	4,610	-
United PF 1st Recovery Private Equity Fund	152,315	13,769	-	13,769	-
CH Engineering Co., Ltd. ²	681	(102)	-	(102)	-
Kores Co., Ltd. ³	100,769	565	2,472	3,037	-
KB GwS Private Securities Investment Trust	42,239	41,247	-	41,247	6,960
Incheon Bridge Co., Ltd.	77,311	(13,533)	-	(13,533)	-
KoFC POSCO HANHWA					
KB shared growth Private Equity Fund	1,685	(8,803)	1,759	(7,044)	-
Future Planning KB Start-up Creation Fund	39	37	-	37	-
Terra Corporation ³	1,422	17	-	17	-
Ssangyong Engineering & Construction Co., Ltd. ³	1,724,742	(314,105)	(8,615)	(322,720)	-
KB Star office Private real estate Investment Trust No.1	16,672	8,490	-	8,490	1,751

¹ The amounts included in the financial statements of the associates are adjusted to reflect adjustments made by the entity, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

² As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of November 2013 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

³ As the financial statements as of the end of December are not available, the Group applied the equity method by using the financial statements as of the end of September 2013 and adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

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The changes in investments in associates for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014							
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehensive loss	Impairment losses	Ending
Balhae Infrastructure Fund	₩124,968	₩ 806	₩ -	₩ (6,280)	₩ 5,625	₩ -	₩ -	₩125,119
Korea Credit Bureau Co., Ltd.	4,185	-	-	-	37	-	-	4,222
UAMCO., Ltd.	150,826	-	-	(35,041)	5,397	-	-	121,182
JSC Bank CenterCredit	68,110	-	-	(2)	(6,278)	(32,551)	-	29,279
KB06-1 Venture Investment Partnership	861	-	(1,124)	-	279	(16)	-	-
KB08-1 Venture Investment Partnership	9,345	-	(6,100)	(4,946)	2,005	(304)	-	-
KB12-1 Venture Investment Partnership	23,200	5,600	-	-	326	(7)	-	29,119
KoFC KBIC Frontier Champ 2010-5(PEF)	28,548	30	(9,597)	(1,938)	-	-	(368)	16,675
United PF 1st Recovery Private Equity Fund	197,941	-	-	-	148	-	-	198,089
Kores Co., Ltd.	1,505	-	(1,505)	-	-	-	-	-
KB GwS Private Securities Investment Trust	97,788	-	-	(7,222)	7,996	-	-	98,562
KoFC POSCO HANHWA KB shared growth Private Equity Fund	10,329	9,780	-	-	798	(244)	-	20,663
Future Planning KB Start-up Creation Fund	4,030	-	-	(45)	15	-	-	4,000
CH Engineering Co., Ltd.	-	-	-	-	20	-	-	20
Terra Corporation	4	-	-	-	(4)	-	-	-
KB Star office Private real estate Investment Trust No.1	20,347	-	-	(1,752)	1,807	-	-	20,402
	<u>₩741,987</u>	<u>₩ 16,216</u>	<u>₩ (18,326)</u>	<u>₩(57,226)</u>	<u>₩18,171</u>	<u>₩ (33,122)</u>	<u>₩ (368)</u>	<u>₩667,332</u>

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	2013							
	Beginning	Acquisition and others	Disposal and others	Dividends	Gains (losses)	Other comprehensive income (loss)	Impairment losses	Ending
Balhae Infrastructure Fund	₩125,004	₩ -	₩ -	₩ (6,299)	₩ 6,263	₩ -	₩ -	₩124,968
Korea Credit Bureau Co., Ltd.	3,790	-	-	-	395	-	-	4,185
UAMCO., Ltd.	139,760	-	-	-	11,066	-	-	150,826
JSC Bank CenterCredit	281,889	-	-	(3)	(204,312)	(9,464)	-	68,110
KB06-1 Venture Investment Partnership	1,920	-	(1,000)	-	(75)	16	-	861
KB08-1 Venture Investment Partnership	19,565	-	(7,700)	(3,000)	176	304	-	9,345
KB12-1 Venture Investment Partnership	12,000	11,200	-	-	-	-	-	23,200
KoFC KBIC Frontier Champ 2010-5(PEF)	19,186	9,390	(132)	-	104	-	-	28,548
United PF 1st Recovery Private Equity Fund	195,425	-	-	-	2,516	-	-	197,941
Kores Co., Ltd.	1,384	-	-	-	91	450	(420)	1,505
KB GwS Private Securities Investment Trust	96,109	-	-	(6,960)	8,639	-	-	97,788
Incheon Bridge Co., Ltd.	1,630	-	-	-	(1,630)	-	-	-
KoFC POSCO HANHWA KB shared growth Private Equity Fund	4,983	6,220	-	-	(972)	98	-	10,329
Future Planning KB Start-up Creation Fund	-	4,000	-	-	30	-	-	4,030
Terra Corporation	-	-	-	-	4	-	-	4
Ssangyong Engineering & Construction Co., Ltd. ¹	-	28,779	-	-	(8,200)	(1,176)	(19,403)	-
KB Star office Private real estate Investment Trust No.1	20,311	-	-	(1,751)	1,787	-	-	20,347
	<u>₩922,956</u>	<u>₩ 59,589</u>	<u>₩ (8,832)</u>	<u>₩(18,013)</u>	<u>₩(184,118)</u>	<u>₩ (9,772)</u>	<u>₩ (19,823)</u>	<u>₩741,987</u>

¹ Impairment recognized on reorganization proceedings filed on December 30, 2013.

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Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method for the years ended December 31, 2014 and 2013, are as follows:

	2014		2013	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ 1,287	₩ 1,716	₩ 429	₩ 429
CH Engineering Co., Ltd.	-	-	43	94
Shinla Construction Co., Ltd.	34	134	41	100
Terra Corporation	115	115	-	-

14. Property and Equipment, and Investment Property

The details of property and equipment as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩1,884,029	₩ -	₩ -	₩1,884,029
Buildings	1,153,465	(345,704)	(2,117)	805,644
Leasehold improvements	576,099	(528,629)	-	47,470
Equipment and vehicles	1,492,601	(1,362,673)	-	129,928
Construction in-progress	606	-	-	606
Financial lease assets	21,245	(728)	-	20,517
	<u>₩5,128,045</u>	<u>₩ (2,237,734)</u>	<u>₩ (2,117)</u>	<u>₩2,888,194</u>

(In millions of Korean won)

	2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩1,914,966	₩ -	₩ -	₩1,914,966
Buildings	1,151,223	(328,701)	(2,117)	820,405
Leasehold improvements	545,936	(495,966)	-	49,970
Equipment and vehicles	1,437,687	(1,328,503)	-	109,184
Construction in-progress	-	-	-	-
Financial lease assets	66,641	(57,741)	-	8,900
	<u>₩5,116,453</u>	<u>₩ (2,210,911)</u>	<u>₩ (2,117)</u>	<u>₩2,903,425</u>

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The changes in property and equipment for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014						
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation	Others	Ending
Land	₩1,914,966	₩ 4,786	₩ (35,698)	₩ -	₩ -	₩ (25)	₩1,884,029
Buildings	820,405	10,226	2,186	-	(27,093)	(80)	805,644
Leasehold improvements	49,970	2	29,628	(138)	(35,248)	3,256	47,470
Equipment and vehicles	109,184	88,570	1,946	(313)	(70,393)	934	129,928
Construction in-progress	-	54,859	(54,253)	-	-	-	606
Financial lease assets	8,900	29,152	(1,946)	-	(15,589)	-	20,517
	<u>₩2,903,425</u>	<u>₩ 187,595</u>	<u>₩ (58,137)</u>	<u>₩ (451)</u>	<u>₩ (148,323)</u>	<u>₩4,085</u>	<u>₩2,888,194</u>

(In millions of Korean won)

	2013						
	Beginning	Acquisition	Transfers ¹	Disposal	Depreciation	Others	Ending
Land	₩ 1,932,744	₩ 102	₩ (17,640)	₩ (167)	₩ -	₩ (73)	₩ 1,914,966
Buildings	835,840	776	11,386	(219)	(27,136)	(242)	820,405
Leasehold improvements	49,627	736	32,718	(22)	(42,307)	9,218	49,970
Equipment and vehicles	108,881	77,051	-	(234)	(76,553)	39	109,184
Construction in-progress	893	51,268	(52,161)	-	-	-	-
Financial lease assets	9,767	10,734	-	-	(11,601)	-	8,900
	<u>₩ 2,937,752</u>	<u>₩ 140,667</u>	<u>₩ (25,697)</u>	<u>₩ (642)</u>	<u>₩ (157,597)</u>	<u>₩ 8,942</u>	<u>₩ 2,903,425</u>

¹ Including transfers from investment property and assets held for sale.

The changes in accumulated impairment losses of property and equipment for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Beginning	Impairment	Reversal	Others	Ending	
₩	(2,117)	₩ -	₩ -	₩ -	₩ (2,117)	

(In millions of Korean won)

	2013					
	Beginning	Impairment	Reversal	Others	Ending	
₩	(3,242)	₩ -	₩ -	₩ 1,125	₩ (2,117)	

The details of investment property as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 253,533	₩ -	₩ 253,533
Buildings	167,931	(12,198)	155,733
	<u>₩ 421,464</u>	<u>₩ (12,198)</u>	<u>₩ 409,266</u>

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	2013		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 122,190	₩ -	₩ 122,190
Buildings	89,001	(10,186)	78,815
	<u>₩ 211,191</u>	<u>₩ (10,186)</u>	<u>₩201,005</u>

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2013, are as follows:

(In millions of Korean won)

	2014		
	Fair Value	Valuation technique	Inputs
Land and Buildings	₩409,647	Cost model	- Price per square meter - Replacement cost

As of December 31, 2014 and 2013, fair values of the investment properties amount to ₩409,647 million and ₩221,884 million, respectively. The investment properties were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

Rental income from the above investment properties for the years ended December 31, 2014 and 2013, amounts to ₩7,167 million and ₩5,016 million, respectively.

The changes in investment property for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 122,190	₩ 132,923	₩ (1,580)	₩ -	₩253,533
Buildings	78,815	79,072	147	(2,301)	155,733
	<u>₩ 201,005</u>	<u>₩ 211,995</u>	<u>₩ (1,433)</u>	<u>₩ (2,301)</u>	<u>₩409,266</u>

(In millions of Korean won)

	2013				
	Beginning	Acquisitions	Transfers	Depreciation	Ending
Land	₩ 70,046	₩ 56,056	₩ (3,912)	₩ -	₩122,190
Buildings	22,158	58,553	(74)	(1,822)	78,815
	<u>₩ 92,204</u>	<u>₩ 114,609</u>	<u>₩ (3,986)</u>	<u>₩ (1,822)</u>	<u>₩201,005</u>

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Property and equipment insured as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>		2014	2013	Insurance company
Type	Assets insured	Insurance coverage		
General property insurance	Buildings ¹	₩1,085,153	₩ 991,003	Samsung Fire & Marine Insurance Co., Ltd. and others
	Leasehold improvements	108,281	109,107	
	Equipment and vehicles and others	103,008	76,084	
		<u>₩1,296,442</u>	<u>₩1,176,194</u>	

¹ Buildings include office buildings, investment properties and assets held for sale.

15. Intangible Assets

The details of intangible assets as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	714,034	(568,100)	(5,529)	140,405
	<u>₩ 780,524</u>	<u>₩ (568,100)</u>	<u>₩ (5,529)</u>	<u>₩206,895</u>

<i>(In millions of Korean won)</i>	2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	696,380	(532,794)	(5,492)	158,094
	<u>₩ 762,870</u>	<u>₩ (532,794)</u>	<u>₩ (5,492)</u>	<u>₩224,584</u>

The details of goodwill as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014		2013	
	Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Housing & Commercial Bank	₩ 65,288	₩65,288	₩ 65,288	₩65,288
KB Cambodia Bank	1,202	1,202	1,202	1,202
	<u>₩ 66,490</u>	<u>₩66,490</u>	<u>₩ 66,490</u>	<u>₩66,490</u>

There is no change in goodwill for the years ended December 31, 2014 and 2013.

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The details of allocating goodwill to cash-generating units and related information for impairment testing as of December 31, 2014, are as follows:

(In millions of Korean won)

	Housing & Commercial Bank			Total
	Retail Banking	Corporate Banking	KB Cambodia Bank	
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	1,090,789	1,058,505	735	2,150,029
Discount rate (%)	17.1	17.5	33.4	
Permanent growth rate (%)	2.0	2.0	2.0	

Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the combination for impairment testing, and cash-generating units consist of an operating segment or units which are not larger than an operating segment. The Group recognized the amount of ₩65,288 million related to goodwill acquired in the merger of Housing & Commercial Bank. Of those respective amounts, the amounts of ₩49,315 million and ₩15,973 million were allocated to the Retail Banking and Corporate Banking, respectively. Cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit.

The recoverable amount of a cash-generating unit is measured at the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. If it is difficult to measure the amount obtainable from the sale of the cash-generating unit, the Group measures the fair value less costs to sell by reflecting the characteristics of the measured cash-generating unit. If it is not possible to obtain the reliable information to measure the fair value less costs to sell, the Group uses the asset's value in use as its recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The projections of the future cash flows are based on the most recent financial budget approved by management and generally cover a period of five years. The future cash flows after projection period are estimated on the assumption that the future cash flows will increase by 2.0% for Retail Banking, Corporate Banking and KB Cambodia Bank every year. The key assumptions used for the estimation of the future cash flows are the market size and the Group's market share. The discount rate is a pre-tax rate that reflects assumptions regarding risk-free interest rate, market risk premium and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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The details of intangible assets, excluding goodwill, as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,295	₩ (1,006)	₩ -	₩ 289
Software	560,121	(505,998)	-	54,123
Other intangible assets	128,644	(60,743)	(5,529)	62,372
Finance leases assets	23,974	(353)	-	23,621
	<u>₩ 714,034</u>	<u>₩ (568,100)</u>	<u>₩ (5,529)</u>	<u>₩ 140,405</u>

(In millions of Korean won)

	2013			
	Acquisition cost	Accumulated amortization	Accumulated impairment losses	Carrying amount
Industrial property rights	₩ 1,245	₩ (881)	₩ -	₩ 364
Software	539,293	(460,775)	-	78,518
Other intangible assets	126,391	(49,743)	(5,492)	71,156
Finance leases assets	29,451	(21,395)	-	8,056
	<u>₩ 696,380</u>	<u>₩ (532,794)</u>	<u>₩ (5,492)</u>	<u>₩ 158,094</u>

The changes in intangible assets, excluding goodwill, for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014						
	Beginning	Acquisition	Transfer	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 364	₩ 36	₩ -	₩ -	₩ (117)	₩ 6	₩ 289
Software	78,518	16,370	4,528	-	(44,491)	(802)	54,123
Other intangible assets ¹	71,156	1,673	-	(2,577)	(8,252)	372	62,372
Finance leases assets	8,056	28,208	(4,528)	-	(8,115)	-	23,621
	<u>₩158,094</u>	<u>₩ 46,287</u>	<u>₩ -</u>	<u>₩(2,577)</u>	<u>₩ (60,975)</u>	<u>₩(424)</u>	<u>₩140,405</u>

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	2013					
	Beginning	Acquisition	Disposal	Amortization	Others	Ending
Industrial property rights	₩ 373	₩ 104	₩ -	₩ (111)	₩ (2)	₩ 364
Software	127,626	21,196	-	(69,499)	(805)	78,518
Other intangible assets ¹	63,240	24,674	(2,981)	(6,150)	(7,627)	71,156
Finance leases assets	7,089	6,036	-	(5,069)	-	8,056
	<u>₩ 198,328</u>	<u>₩ 52,010</u>	<u>₩(2,981)</u>	<u>₩ (80,829)</u>	<u>₩(8,434)</u>	<u>₩158,094</u>

¹ Impairment loss for membership rights under other intangible assets with indefinite useful lives was recognized when their recoverable amount is lower than their carrying amount, and reversal of impairment losses was recognized when their recoverable amount is higher than their carrying amount.

The changes in accumulated impairment losses on intangible assets for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on intangible assets	₩ (5,492)	₩ (128)	₩ 321	₩ (230)	₩ (5,529)

(In millions of Korean won)

	2013				
	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on intangible assets	₩ (4,801)	₩ (723)	₩ 24	₩ 8	₩ (5,492)

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16. Deferred income tax assets and liabilities

The details of deferred income tax assets and liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Assets	Liabilities	Net amount
Other provisions	₩ 65,033	₩ -	₩ 65,033
Impairment losses on property and equipment	5,412	-	5,412
Interest on equity index-linked deposits	183	-	183
Share-based payments	7,806	-	7,806
Provisions for guarantees	50,115	-	50,115
Gains(losses) from valuation on derivatives	-	(51,167)	(51,167)
Present value discount	-	(34)	(34)
Gains(losses) from fair value hedged	12,834	-	12,834
Accrued interest	-	(48,019)	(48,019)
Deferred loan origination fees and costs	-	(110,160)	(110,160)
Gains from revaluation	-	(272,696)	(272,696)
Investments in subsidiaries and associates	6,336	(71,565)	(65,229)
Others	562,200	(261,322)	300,878
	<u>709,919</u>	<u>(814,963)</u>	<u>(105,044)</u>
Offsetting of deferred income tax assets and liabilities	(704,605)	704,605	-
Total	₩ 5,314	₩(110,358)	₩ (105,044)

(In millions of Korean won)

	2013		
	Assets	Liabilities	Net amount
Other provisions	₩ 78,295	₩ -	₩ 78,295
Impairment losses on property and equipment	2,873	-	2,873
Interest on equity index-linked deposits	340	-	340
Share-based payments	8,241	-	8,241
Provisions for guarantees	50,461	-	50,461
Gains(losses) from valuation on derivatives	-	(13,196)	(13,196)
Present value discount	195	-	195
Gains(losses) from fair value hedged	16,670	-	16,670
Accrued interest	-	(60,327)	(60,327)
Deferred loan origination fees and costs	-	(93,960)	(93,960)
Gains from revaluation	-	(273,806)	(273,806)
Investments in subsidiaries and associates	69,706	(59,923)	9,783
Others	417,242	(262,732)	154,510
	<u>644,023</u>	<u>(763,944)</u>	<u>(119,921)</u>
Offsetting of deferred income tax assets and liabilities	(643,580)	643,580	-
Total	₩ 443	₩(120,364)	₩ (119,921)

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Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩27,367 million associated with investments in subsidiaries and associates as of December 31, 2014, due to the following reasons:

- The Group is able to control the timing of the reversal of the temporary difference.
- It is probable that the temporary difference will not be reversed in the foreseeable future.

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩65,288 million arising from the initial recognition of goodwill from the merger of Housing and Commercial Bank as of December 31, 2014.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩547,965 million associated with investments in subsidiaries and associates as of December 31, 2014, because it is not probable that the temporary differences will be reversed in the foreseeable future.

No deferred income tax assets have been recognized for deductible temporary differences of ₩199 million, ₩80,204 million and ₩18,185 million associated other provisions, loss on SPE repurchase and others, respectively, as of December 31, 2014, due to the uncertainty that these will be realized in the future.

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The changes in cumulative temporary differences for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Gains(losses) from fair value hedge	₩ 68,884	₩ 68,884	₩ 53,033	₩ 53,033
Other provisions	323,781	323,781	268,931	268,931
Impairment losses on property and equipment	11,873	11,873	22,363	22,363
Interest on equity index-linked deposits	1,407	1,325	676	758
Share-based payments	34,053	34,053	32,256	32,256
Provisions for guarantees	208,517	208,517	207,087	207,087
Present value discount	804	804	-	-
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	882,728	308,051	4,802	579,479
Others	1,737,460	1,017,320	1,621,331	2,341,471
	<u>3,349,711</u>	<u>₩1,974,608</u>	<u>₩2,210,479</u>	<u>3,585,582</u>
Unrecognized deferred income tax assets:				
Other provisions	250			199
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	595,196			547,965
Others	13,376			18,185
	<u>₩2,660,685</u>			<u>₩2,939,029</u>
Tax rate (%)	<u>24.2</u>			<u>24.2</u>
Total deferred income tax assets from deductible temporary differences	<u>₩ 644,023</u>			<u>₩ 709,919</u>

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	2014			
	Beginning	Decrease	Increase	Ending
Taxable temporary differences				
Accrued interest	₩ (249,286)	₩ (217,151)	₩ (166,289)	₩ (198,424)
Deferred loan origination fees and costs	(388,266)	(388,266)	(455,207)	(455,207)
Gains(losses) from valuation on derivatives	(54,531)	(54,531)	(211,434)	(211,434)
Present value discount	-	-	(140)	(140)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains from revaluation	(1,131,429)	(4,587)	-	(1,126,842)
Investment in subsidiaries and associates	(365,424)	(57,931)	(15,199)	(322,692)
Others	(1,087,088)	(376,397)	(369,155)	(1,079,846)
	<u>(3,341,312)</u>	<u>₩(1,098,863)</u>	<u>₩(1,217,424)</u>	(3,459,873)
Unrecognized deferred income tax liabilities:				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(118,748)			(27,367)
	<u>₩(3,157,276)</u>			<u>₩(3,367,218)</u>
Tax rate (%)	<u>24.2</u>			<u>24.2</u>
Total deferred income tax liabilities from deductible temporary differences	<u>₩ (763,944)</u>			<u>₩ (814,962)</u>

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	2013			
	Beginning	Decrease	Increase	Ending
Deductible temporary differences				
Gains(losses) from fair value hedge	₩ 127,281	₩ 127,281	₩ 68,884	₩ 68,884
Other provisions	318,070	318,070	323,781	323,781
Impairment losses on property and equipment	8,723	8,723	11,873	11,873
Interest on equity index-linked deposits	2,985	2,985	1,407	1,407
Share-based payments	24,986	24,986	34,053	34,053
Provisions for guarantees	208,247	208,247	208,517	208,517
Present value discount	245	245	804	804
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	591,676	7,737	298,789	882,728
Others	<u>1,469,644</u>	<u>698,775</u>	<u>966,591</u>	<u>1,737,460</u>
	2,832,061	<u>₩1,397,049</u>	<u>₩1,914,699</u>	3,349,711
Unrecognized deferred income tax assets:				
Share-based payments	10			-
Other provisions	817			250
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	398,516			595,196
Others	<u>6,870</u>			<u>13,376</u>
	₩2,345,644			₩2,660,685
Tax rate (%)	<u>24.2</u>			<u>24.2</u>
Total deferred income tax assets from deductible temporary differences	<u>₩ 567,774</u>			<u>₩ 644,023</u>

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	2013			
	Beginning	Decrease	Increase	Ending
Taxable temporary differences				
Accrued interest	₩ (261,908)	₩ (216,665)	₩ (204,043)	₩ (249,286)
Deferred loan origination fees and costs	(347,996)	(347,996)	(388,266)	(388,266)
Gains(losses) from valuation on derivatives	(152,020)	(152,020)	(54,531)	(54,531)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains from revaluation	(1,132,933)	(1,504)	-	(1,131,429)
Investment in subsidiaries and associates	(395,186)	(80,596)	(50,834)	(365,424)
Others	(944,473)	(376,881)	(519,495)	(1,087,087)
	<u>(3,299,804)</u>	<u>₩(1,175,662)</u>	<u>₩(1,217,169)</u>	<u>(3,341,311)</u>
Unrecognized deferred income tax liabilities:				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(83,745)			(118,749)
	<u>₩(3,150,771)</u>			<u>₩(3,157,274)</u>
Tax rate (%)	<u>24.2</u>			<u>24.2</u>
Total deferred income tax liabilities from deductible temporary differences	<u>₩ (762,677)</u>			<u>₩ (763,944)</u>

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17. Other Assets

The details of other assets as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Other financial assets		
Other receivables	₩ 2,663,441	₩ 2,820,204
Accrued income	754,702	792,882
Guarantee deposits	1,291,907	1,334,257
Domestic exchange settlement debits	2,086,792	723,886
Others	20,924	19,089
Allowances for loan losses	(288,245)	(527,114)
Present value discount	(489)	(555)
	<u>6,529,032</u>	<u>5,162,649</u>
Other non-financial assets		
Other receivables	1,187	528
Prepaid expenses	182,936	221,160
Guarantee deposits	3,607	3,663
Others	34,925	65,351
Allowances on other assets	(23,174)	(16,146)
	<u>199,481</u>	<u>274,556</u>
	<u>₩6,728,513</u>	<u>₩5,437,205</u>

The changes in allowances for loan losses on other assets for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>		
	<u>Other financial assets</u>	<u>Other non-financial assets</u>	<u>Total</u>
Beginning	₩ 527,114	₩ 16,146	₩ 543,260
Provision	27,415	4,065	31,480
Written-off	(290,329)	(2,435)	(292,764)
Others	24,045	5,398	29,443
Ending	<u>₩ 288,245</u>	<u>₩ 23,174</u>	<u>₩ 311,419</u>

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	2013		
	Other financial assets	Other non- financial assets	Total
Beginning	₩ 524,661	₩ 7,820	₩ 532,481
Provision	7,927	15,041	22,968
Written-off	(5,474)	(6,715)	(12,189)
Ending	<u>₩ 527,114</u>	<u>₩ 16,146</u>	<u>₩ 543,260</u>

18. Assets held for sale

Fair value measurement of assets held for sale

The details of assets held for sale as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Acquisition cost¹	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land	₩ 47,418	₩ (9,442)	₩ 37,976	₩ 40,530
Buildings	26,862	(10,804)	16,058	17,429
	<u>₩ 74,280</u>	<u>₩ (20,246)</u>	<u>₩ 54,034</u>	<u>₩ 57,959</u>

(In millions of Korean won)

	2013			
	Acquisition cost¹	Accumulated impairment	Carrying amount	Fair value less costs to sell
Land	₩ 21,380	₩ (5,109)	₩ 16,271	₩ 16,271
Buildings	9,634	(4,978)	4,656	4,656
	<u>₩ 31,014</u>	<u>₩ (10,087)</u>	<u>₩ 20,927</u>	<u>₩ 20,927</u>

¹ Acquisition cost of buildings held for sale is net of accumulated depreciation.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2014, are as follows:

(In millions of
Korean won)

	Fair value	Valuation technique¹	2014		
			Unobservable inputs²	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
Land and buildings	₩ 57,982	Market comparison approach model	Adjustment index	0.17~2.00	Fair value increases as the adjustment index rises
			Adjustment ratio	-20.00~0.00	Fair value decreases as the absolute value of adjustment ratio rises

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¹ The Group adjusted the appraisal value by the adjustment ratio in the event the public sale is unsuccessful.

² Adjustment index is calculated using the real estate index or the producer price index, or land price volatility.

The fair values of assets held for sale were measured by qualified independent appraisers with experience in valuing similar properties in the same area. In addition, per the fair value hierarchy on Note 6.1, the fair value hierarchy of all investment properties has been categorized and classified as Level 3.

The changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

					2014	
Beginning	Provision	Reversal	Others	Ending		
₩ (10,087)	₩ (15,943)	₩ -	₩ 5,784	₩ (20,246)		

(In millions of Korean won)

					2013	
Beginning	Provision	Reversal	Others	Ending		
₩ (5,759)	₩ (9,044)	₩ -	₩ 4,716	₩ (10,087)		

As of December 31, 2014, assets held for sale consist of 15 real estates of closed offices, which the management of the Group was committed to a plan to sell, but not sold by December 31, 2014. As of December 31, 2014, three assets out of above assets held for sale are under negotiation for sale and the remaining 12 assets are also being actively marketed.

19. Deposits

Deposits as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Deposits	₩ 211,611,432	₩ 200,967,688

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The details of deposits as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Demand deposits in Korean won		
Checking deposits	₩ 183,805	₩ 322,389
Household checking deposits	495,268	467,229
Special deposits	3,017,638	2,705,704
Ordinary deposits	28,070,909	24,570,520
Public fund deposits	81,899	75,127
Treasury deposits	5,012	5,148
General savings deposits	30,195,868	28,077,274
Corporate savings deposits	13,741,817	10,813,213
Nonresident's deposit in Korean won	53,079	67,468
Nonresident's free deposit in Korean won	16,761	15,002
Other demand deposits	27,535	28,008
	<u>75,889,591</u>	<u>67,147,082</u>
Demand deposits in foreign currencies		
Checking deposits	114,589	251,072
Ordinary deposits	2,813,236	2,471,292
Special deposits	1,677	5,325
Others	87,936	52,765
	<u>3,017,438</u>	<u>2,780,454</u>
	<u>78,907,029</u>	<u>69,927,536</u>
Time deposits in Korean won		
Time deposits	110,861,684	108,144,843
Installment savings deposits	10,111,644	11,069,012
Good-sum formation savings	843,065	422,486
Nonresident's deposit in Korean won	137,578	151,853
Long-term savings deposits for workers	1,488	1,543
Nonresident's free deposit in Korean won	26,361	41,085
Long-term housing savings deposits	1,425,949	2,055,708
Long-term savings for households	163	190
Preferential savings deposits for workers	143	244
Mutual installment deposits	1,266,208	1,478,473
Mutual installment for housing	755,764	853,392
Others	3,207,318	3,093,949
	<u>128,637,365</u>	<u>127,312,778</u>
Fair value adjustments on fair value hedged time deposits in Korean won		
Fair value adjustments on valuation of fair value hedged items (current period portion)	(958)	-
	<u>128,636,407</u>	<u>127,312,778</u>

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(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Time deposits in foreign currencies		
Time deposits	2,456,599	2,082,865
Installment savings deposits	3,053	4,035
Others	25,297	16,195
	<u>2,484,949</u>	<u>2,103,095</u>
	<u>131,121,356</u>	<u>129,415,873</u>
Certificates of deposits	<u>1,583,047</u>	<u>1,624,279</u>
Total deposits	<u>₩ 211,611,432</u>	<u>₩ 200,967,688</u>

20. Debts

The details of debts as of December 31, 2014 and 2013, consist of:

(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Borrowings	₩ 11,271,860	₩ 10,541,705
Bonds sold under repurchase agreements and others	203,944	460,249
Call money	2,821,656	2,567,969
	<u>₩ 14,297,460</u>	<u>₩ 13,569,923</u>

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The details of borrowings as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>		Lender	Annual interest rate (%)	2014	2013
Borrowings					
in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50~1.00	₩ 1,002,796	₩ 557,998
	Borrowings from the government	KEMCO and others	0.00~5.00	611,378	626,593
	Borrowings from banking institutions	Industrial Bank of Korea	1.97	874	1,877
	Borrowings from non-banking financial institutions	Korea Development Bank	0.71~2.70	187,452	142,511
	Other borrowings	Korea Finance Corporation and others	0.00~7.50	3,399,780	3,361,261
				<u>5,202,280</u>	<u>4,690,240</u>
Borrowings in foreign currencies	Due to banks	Royal Bank of Canada and others	-	3,313	158,179
	Borrowings from banking institutions	Wells Fargo Securities and others	0.21~1.70	3,522,159	3,831,929
	Borrowings from other financial institutions	Korea Finance Corporation	0.61~1.36	34,460	3,166
	Other borrowings	JP Morgan Chase Bank N.A. and others	-	2,509,648	1,858,191
				<u>6,069,580</u>	<u>5,851,465</u>
			<u>₩ 11,271,860</u>	<u>₩ 10,541,705</u>	

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The details of bonds sold under repurchase agreements and others as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Lenders	Annual interest rate (%)	2014	2013
Bonds sold under repurchase agreements	Individuals, groups, corporations	2.08~3.63	₩ 148,869	₩ 382,779
Bills sold	Individuals, corporations	1.09~2.62	55,075	77,470
			<u>₩ 203,944</u>	<u>₩ 460,249</u>

The details of call money as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Lenders	Annual interest rate (%)	2014	2013
Call money in Korean won	Woori Bank and others	1.83~1.98	₩ 1,822,000	₩ 1,569,400
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.10~3.61	999,656	998,569
			<u>₩ 2,821,656</u>	<u>₩ 2,567,969</u>

Call money and borrowings from financial institutions as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014			
	Bank of Korea	Other Banks	Others	Total
Call money	₩ -	₩ 1,933,656	₩ 888,000	₩ 2,821,656
Borrowings	1,277,596	5,386,518	591,642	7,255,756
	<u>₩ 1,277,596</u>	<u>₩ 7,320,174</u>	<u>₩ 1,479,642</u>	<u>₩ 10,077,412</u>

<i>(In millions of Korean won)</i>	2013			
	Bank of Korea	Other Banks	Others	Total
Call money	₩ 1,001	₩ 1,890,569	₩ 676,399	₩ 2,567,969
Borrowings	557,998	5,536,151	459,702	6,553,851
	<u>₩ 558,999</u>	<u>₩ 7,426,720</u>	<u>₩ 1,136,101</u>	<u>₩ 9,121,820</u>

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21. Debentures

The details of debentures as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Annual interest rate (%)	2014	2013
Debentures in Korean won			
Structured debentures	0.40~8.62	₩ 1,239,238	₩ 1,499,238
Subordinated fixed rate debentures in Korean won	3.08~7.51	4,566,124	8,648,474
Fixed rate debentures in Korean won	2.11~4.09	6,390,553	2,941,142
Floating rate debentures in Korean won	2.17	150,000	102,858
		<u>12,345,915</u>	<u>13,191,712</u>
Fair value adjustments on fair value hedged debentures in Korean won			
Fair value adjustments on valuation of fair value hedged items (current year portion)		5,732	(31,577)
Fair value adjustments on valuation of fair value hedged items (prior year portion)		48,183	81,369
		<u>53,915</u>	<u>49,792</u>
Discount or premium on debentures in Korean won			
Discount on debentures		(38,980)	(8,547)
		<u>12,360,850</u>	<u>13,232,957</u>
Debentures in foreign currencies			
Floating rate debentures	0.38~1.48	1,318,415	826,770
Fixed rate debentures	0.60~3.63	1,578,980	2,335,059
		<u>2,897,395</u>	<u>3,161,829</u>
Fair value adjustments on fair value hedged debentures in foreign currencies			
Fair value adjustments on valuation of fair value hedged items (current year portion)		(10,309)	(42,195)
Fair value adjustments on valuation of fair value hedged items (prior year portion)		10,384	(130,011)
		<u>75</u>	<u>(172,206)</u>
Discount or premium on debentures in foreign currencies			
Discount on debentures		(7,856)	(9,822)
		<u>2,889,614</u>	<u>2,979,801</u>
		<u>₩15,250,464</u>	<u>₩16,212,758</u>

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The changes in debentures based on face value for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Issues	Repayments	Others	Ending
Debentures in Korean won					
Structured debentures	₩ 1,499,238	₩ 80,000	₩ (340,000)	₩ -	₩ 1,239,238
Subordinated fixed rate debentures in Korean won	8,648,474	-	(4,082,350)	-	4,566,124
Fixed rate debentures in Korean won	2,941,142	4,670,000	(1,220,589)	-	6,390,553
Floating rate debentures in Korean won	102,858	353,200	(306,058)	-	150,000
	<u>13,191,712</u>	<u>5,103,200</u>	<u>(5,948,997)</u>	<u>-</u>	<u>12,345,915</u>
Debentures in foreign currencies					
Floating rate debentures	826,770	754,003	(319,157)	56,799	1,318,415
Fixed rate debentures	2,335,059	803,503	(1,633,588)	74,006	1,578,980
	<u>3,161,829</u>	<u>1,557,506</u>	<u>(1,952,745)</u>	<u>130,805</u>	<u>2,897,395</u>
	<u>₩ 16,353,541</u>	<u>₩ 6,660,706</u>	<u>₩ (7,901,742)</u>	<u>₩ 130,805</u>	<u>₩ 15,243,310</u>

(In millions of Korean won)

	2013				
	Beginning	Issues	Repayments	Others	Ending
Debentures in Korean won					
Hybrid capital instrument	₩ 100,000	₩ -	₩ (100,000)	₩ -	₩ -
Structured debentures	1,699,238	100,000	(300,000)	-	1,499,238
Subordinated fixed rate debentures in Korean won	7,896,780	1,000,000	(248,306)	-	8,648,474
Fixed rate debentures in Korean won	3,227,425	1,300,000	(1,586,283)	-	2,941,142
Floating rate debentures in Korean won	104,158	302,600	(303,900)	-	102,858
	<u>13,027,601</u>	<u>2,702,600</u>	<u>(2,538,489)</u>	<u>-</u>	<u>13,191,712</u>
Debentures in foreign currencies					
Floating rate debentures	438,453	537,850	(176,050)	26,517	826,770
Fixed rate debentures	2,553,814	657,465	(772,364)	(103,856)	2,335,059
	<u>2,992,267</u>	<u>1,195,315</u>	<u>(948,414)</u>	<u>(77,339)</u>	<u>3,161,829</u>
	<u>₩ 16,019,868</u>	<u>₩ 3,897,915</u>	<u>₩ (3,486,903)</u>	<u>₩ (77,339)</u>	<u>₩ 16,353,541</u>

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22. Provisions

The details of provisions as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Provisions for unused loan commitments	₩ 125,345	₩ 139,997
Provisions for acceptances and guarantees	207,927	209,110
Provisions for asset retirement obligation	68,999	67,995
Other	81,104	122,635
	<u>₩ 483,375</u>	<u>₩ 539,737</u>

Provisions for unused loan commitments as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014		
	Commitments outstanding	Provision	Ratio (%)
Corporate loan commitments	₩ 43,129,862	₩ 90,678	0.21
Retail loan commitments	13,846,701	34,667	0.25
	<u>₩ 56,976,563</u>	<u>₩ 125,345</u>	<u>0.22</u>

<i>(In millions of Korean won)</i>	2013		
	Commitments outstanding	Provision	Ratio (%)
Corporate loan commitments	₩ 42,972,292	₩ 101,876	0.24
Retail loan commitments	13,922,285	38,121	0.27
	<u>₩ 56,894,577</u>	<u>₩ 139,997</u>	<u>0.25</u>

Provisions for acceptances and guarantees as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014		
	Acceptances and guarantees	Provision	Ratio (%)
Confirmed acceptances and guarantees in Korean won	₩ 1,098,048	₩ 37,507	3.42
Confirmed acceptances and guarantees in foreign currencies	4,061,444	79,966	1.97
Unconfirmed acceptances and guarantees	3,886,332	90,454	2.33
	<u>₩ 9,045,824</u>	<u>₩ 207,927</u>	<u>2.30</u>

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(In millions of Korean won)

	2013		
	Acceptances and guarantees	Provision	Ratio (%)
Confirmed acceptances and guarantees in Korean won	₩ 1,231,551	₩ 42,596	3.46
Confirmed acceptances and guarantees in foreign currencies	4,532,037	96,077	2.12
Unconfirmed acceptances and guarantees	4,041,087	70,437	1.74
	<u>₩ 9,804,675</u>	<u>₩209,110</u>	<u>2.13</u>

The changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 139,997	₩ 209,110	₩ 349,107
Effects of changes in foreign exchange rate	547	3,359	3,906
Reversal	(15,199)	(4,542)	(19,741)
Ending	<u>₩ 125,345</u>	<u>₩ 207,927</u>	<u>₩ 333,272</u>

(In millions of Korean won)

	2013		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 147,257	₩ 208,746	₩ 356,003
Effects of changes in foreign exchange rate	(165)	(961)	(1,126)
Provision(Reversal)	(7,095)	1,325	(5,770)
Ending	<u>₩ 139,997</u>	<u>₩ 209,110</u>	<u>₩ 349,107</u>

The changes in provisions for asset retirement obligation for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
	Beginning	₩ 67,995
Provision	2,722	3,184
Used	(4,324)	(1,836)
Unwinding of discount	2,561	1,994
Effects of changes in discount rate	45	5,952
Ending	<u>₩ 68,999</u>	<u>₩ 67,995</u>

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Provisions for asset retirement obligation are present value of estimated costs to be incurred for restoration of the leased properties. Actual expenses are expected to be incurred at the end of each lease contract. Three-year historical data of expired leases were used to estimate the average lease year. Also, the average restoration expense based on actual three-year historical data and the three-year historical average inflation rate were used to estimate the present value of estimated costs.

The details of other provisions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Provisions for membership rewards program	₩ 76	₩ 69
Dormant accounts	33,996	16,838
Provisions for litigations	2,622	3,257
Provisions for financial guarantee contracts	2,718	2,699
Others	41,692	99,772
	<u>₩ 81,104</u>	<u>₩ 122,635</u>

The changes in other provisions for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014					
	Membership rewards program	Dormant accounts	Litigations	Financial guarantee liabilities	Others	Total
Beginning	₩ 69	₩16,838	₩3,257	₩2,699	₩99,772	₩122,635
Provision (Reversal)	164	49,040	(632)	19	(892)	47,699
Used and Others	(157)	(31,882)	(3)	-	(57,188)	(89,230)
Ending	<u>₩ 76</u>	<u>₩33,996</u>	<u>₩2,622</u>	<u>₩2,718</u>	<u>₩41,692</u>	<u>₩ 81,104</u>

(In millions of Korean won)

	2013					
	Membership rewards program	Dormant accounts	Litigations	Financial guarantee liabilities	Others	Total
Beginning	₩151	₩16,028	₩2,977	₩7,383	₩96,108	₩122,647
Provision (Reversal)	160	10,595	786	(4,684)	24,310	31,167
Used and Others	(242)	(9,785)	(506)	-	(20,646)	(31,179)
Ending	<u>₩ 69</u>	<u>₩16,838</u>	<u>₩3,257</u>	<u>₩2,699</u>	<u>₩99,772</u>	<u>₩122,635</u>

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23. Net defined benefit liabilities

Defined benefit plan

The Group operates defined benefit plans which have the following characteristics:

- The Group has the obligation to pay the agreed benefits to all its current and former employees.
- Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the Group.

The net defined benefit liability recognized in the statements of financial position is calculated by independent actuaries in accordance with actuarial valuation methods.

The defined benefit obligation is calculated using the Projected Unit Credit method (the 'PUC'). Data used in the PUC such as interest rates, future salary increase rate, mortality rate and consumer price index are based on observable market data and historical data are updated annually.

Actuarial assumptions may differ from actual results, due to changes in the market, economic trends and mortality trends which may impact net defined benefit liabilities and future payments. Actuarial gains and losses arising from changes in actuarial assumptions are recognized in the year incurred through other comprehensive income.

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The changes in the net defined benefit liabilities (assets) for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 905,999	₩ (854,474)	₩ 51,525
Current service cost	146,118	-	146,118
Interest cost(income)	35,833	(33,788)	2,045
Remeasurements:			
-Actuarial loss arising from changes in financial assumptions	95,786	-	95,786
-Actuarial loss arising from experience adjustment	3,003	-	3,003
-Return on plan assets (excluding amounts included in interest income)	-	11,505	11,505
Contributions	-	(249,500)	(249,500)
Payments from plans (benefit payments)	(32,908)	32,908	-
Payments from the Group	(2,961)	-	(2,961)
Transfer in	1,352	(1,352)	-
Transfer out	(1,826)	1,826	-
Exchange difference on foreign currency plans	(28)	-	(28)
Ending	<u>₩ 1,150,368</u>	<u>₩(1,092,875)</u>	<u>₩ 57,493</u>

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	2013		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	₩ 878,298	₩ (805,237)	₩ 73,061
Current service cost	156,073	-	156,073
Interest cost(income)	31,030	(28,455)	2,575
Gain on settlement	(4,244)	-	(4,244)
Remeasurements:			
-Actuarial loss arising from changes in demographic assumptions	710	-	710
-Actuarial gain arising from changes in financial assumptions	(62,580)	-	(62,580)
-Actuarial loss arising from experience adjustment	6,109	-	6,109
-Return on plan assets (excluding amounts included in interest income)	-	952	952
Contributions	-	(116,803)	(116,803)
Payments from plans (settlement)	(65,493)	65,212	(281)
Payments from plans (benefit payments)	(30,355)	30,355	-
Payments from the Group	(3,715)	-	(3,715)
Transfer in	1,354	(1,354)	-
Transfer out	(1,093)	856	(237)
Exchange difference on foreign currency plans	(95)	-	(95)
Ending	<u>₩ 905,999</u>	<u>₩ (854,474)</u>	<u>₩ 51,525</u>

The details of the net defined benefit liabilities as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Present value of defined benefit obligation	₩ 1,150,368	₩ 905,999
Fair value of plan assets	(1,092,875)	(854,474)
Net defined benefit liabilities	<u>₩ 57,493</u>	<u>₩ 51,525</u>

The details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Current service cost	₩ 146,118	₩ 156,073
Interest expenses of net defined benefit liabilities	2,045	2,575
Gain on settlement	-	(4,244)
Total	<u>₩ 148,163</u>	<u>₩ 154,404</u>

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Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	2014	2013
Remeasurements:		
-Actuarial loss arising from changes in demographic assumptions	₩ -	₩ (710)
-Actuarial loss arising from changes in financial assumptions	(95,786)	62,580
-Actuarial loss arising from experience adjustment	(3,003)	(6,109)
-Return on plan assets (excluding amounts included in interest income)	(11,505)	(952)
Income tax effects	26,691	(13,264)
Remeasurements after income tax	<u>₩(83,603)</u>	<u>₩ 41,545</u>

The details of fair value of plan assets as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 1,073,723	₩1,073,723
Repurchase agreements		19,152	19,152
	<u>₩ -</u>	<u>₩ 1,092,875</u>	<u>₩1,092,875</u>

<i>(In millions of Korean won)</i>	2013		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	₩ -	₩ 849,336	₩ 849,336
Repurchase agreements		5,138	5,138
	<u>₩ -</u>	<u>₩ 854,474</u>	<u>₩ 854,474</u>

Key actuarial assumptions used as of December 31, 2014 and 2013, are as follows:

	Ratio (%)	
	2014	2013
Discount rate (%)	3.00	4.00
Salary increase rate (%)	1.83~4.55	2.50~4.55
Turnover (%)	0.70	0.70

Mortality assumptions are based on the 7th experience-based mortality table of Korea Insurance Development Institute of 2012.

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The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2014, is as follows:

<i>(In millions of Korean won)</i>	Changes in principal assumption	Effect on defined benefit obligation	
		Increase in principal assumption	Decrease in principal assumption
Discount rate (%)	0.5%	4.30% decrease	4.61% increase
Salary increase rate (%)	0.5%	4.23% increase	4.00% decrease
Turnover (%)	0.5%	0.44% decrease	0.46% increase

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions using the same method, the projected unit credit method, is applied when calculating the defined benefit obligations recognized within the statement of financial position.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2014, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Over 10 years	Total
Pension benefits	₩23,532	₩80,546	₩310,494	₩840,246	₩587,758	₩1,842,576

The weighted average duration of the defined benefit obligations is 9.1 years.

Expected contributions to plan assets for the period after December 31, 2014, are estimated to be approximately ₩170,000 million.

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24. Other liabilities

The details of other liabilities as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Other financial liabilities		
Other payables	₩2,570,369	₩ 2,374,288
Prepaid card and debit cards	1,760	1,928
Accrued expenses	2,963,749	3,906,527
Financial guarantee liabilities	12,956	11,797
Deposits for letter of guarantees and others	142,571	141,689
Domestic exchange settlement credits	118,550	986,432
Foreign exchanges settlement credits	69,440	83,237
Borrowings from other business accounts	40,383	7,911
Payables to trust accounts	2,548,578	2,423,675
Liabilities incurred from agency relationship	505,664	532,157
Account for agency businesses	340,061	384,921
Others	30,766	10,568
	<u>9,344,847</u>	<u>10,865,130</u>
Other non-financial liabilities		
Other payables	223,625	145,696
Unearned revenue	42,414	47,445
Accrued expenses	142,385	142,463
Withholding taxes	97,976	106,116
Others	33,028	65,349
	<u>539,428</u>	<u>507,069</u>
	<u>₩9,884,275</u>	<u>₩11,372,199</u>

25. Equity

25.1 Capital Stock

The details of outstanding shares of the Group as of December 31, 2014 and 2013, are as follows:

	<u>Ordinary shares</u>	
	<u>2014</u>	<u>2013</u>
Number of shares authorized	1,000,000,000	1,000,000,000
Par value per share	₩ 5,000	₩ 5,000
Number of shares	404,379,116	404,379,116
Capital stock ¹	₩ 2,021,896	₩ 2,021,896

¹ In millions of Korean won.

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25.2 Capital surplus

The details of capital surplus as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Paid-in capital in excess of par value	₩4,604,417	₩4,604,417
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other capital surplus	40,389	40,389
	<u>₩5,219,704</u>	<u>₩5,219,704</u>

The gain on business combination is a gain from a bargain purchase from the merger with Korea Long Term Credit Bank on December 31, 1998, in accordance with previous Korean GAAP.

25.3 Accumulated other comprehensive income

The details of accumulated other comprehensive income as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Remeasurements of net defined benefit liabilities	₩(87,688)	₩ (4,085)
Currency translation differences	(12,149)	(29,430)
Gain on valuation of available-for-sale financial assets	760,530	538,218
Gain on valuation of held-to-maturity financial assets	-	3
Losses on valuation of equity method investments	(89,882)	(57,087)
	<u>₩570,811</u>	<u>₩447,619</u>

25.4 Retained earnings

Retained earnings as of December 31, 2014 and 2013, consist of:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Legal reserves	₩ 1,997,380	₩ 1,909,363
Regulatory reserve for credit losses	1,690,979	1,590,347
Voluntary reserves	8,946,874	8,369,234
Retained earnings before appropriation	1,492,829	1,388,594
	<u>₩14,128,062</u>	<u>₩13,257,538</u>

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With respect to the allocation of net profit earned in a fiscal term, the Bank must set aside in its legal reserve an amount equal to at least 10% of its net income after tax as reported in the separate statement of comprehensive income each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital in accordance with Article 40 of the Banking Act. The reserves can only be transferred to capital stock or be used to reduce deficit. With respect to the Bank's branches overseas, a portion of the branch's net income is appropriated into legal reserves, in line with the financial legislation of the country where the overseas branch is located.

Regulatory Reserve for Credit Losses

Measurement and Disclosure of Regulatory Reserve for Credit Losses are required in accordance with Articles 29.1 through 29.2 of Regulation on supervision of Banking Business.

The details of the regulatory reserve for credit losses as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Beginning	₩1,690,979	₩1,590,347
Amounts estimated to be appropriated	176,782	100,632
Ending	<u>₩1,867,761</u>	<u>₩1,690,979</u>

The adjustments to the regulatory reserve for credit losses for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Provision of regulatory reserve for credit losses	₩176,782	₩100,632
Adjusted profit after provision of regulatory reserve for credit losses ¹	852,259	730,080

¹ Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision(reversal) of regulatory reserve for credit losses before income tax is adjusted to the profit.

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26. Interest income and expense

The details of interest income and expense for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Interest income		
Due from financial institutions	₩ 142,644	₩ 107,090
Loans	8,495,967	9,258,122
Financial investments		
Available-for-sale financial assets	469,173	579,808
Held-to-maturity financial assets	452,652	505,038
Other	142,191	145,322
	<u>9,702,627</u>	<u>10,595,380</u>
Interest expenses		
Deposits	3,842,482	4,274,624
Debts	228,146	261,077
Debentures	594,341	824,057
Other	66,212	75,382
	<u>4,731,181</u>	<u>5,435,140</u>
Net interest income	<u>₩ 4,971,446</u>	<u>₩ 5,160,240</u>

Interest income recognized on impaired loans is ₩93,935 million (2013: ₩106,603 million) for the year ended December 31, 2014. Interest income recognized on impaired financial investments is ₩4 million for the year ended December 31, 2013.

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27. Fee and commission income and expense

The details of fee and commission income, and fee and commission expense for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Fee and commission income		
Banking activity fees	₩ 171,909	₩ 171,582
Lending activity fees	73,605	90,243
Agent activity fees	372,323	411,498
Trust and other fiduciary fees	203,426	137,558
Guarantee fees	29,283	34,173
Credit card related fees and commissions	1,612	1,809
Foreign currency related fees	96,020	102,047
Security activity commissions	145,718	174,179
Other business account commission on consignment	25,311	29,799
Debit card related fees and commissions	637	572
Others	151,494	128,190
	<u>1,271,338</u>	<u>1,281,650</u>
Fee and commission expense		
Trading activity related fees ¹	8,872	9,742
Lending activity fees	18,548	19,535
Credit card related fees and commissions	1,149	1,301
Contributions to external institutions	18,614	17,454
Outsourcing related fees	55,508	55,465
Foreign currency related fees	11,452	12,483
Management fees of written-off loans	9,853	12,071
Others	69,297	48,855
	<u>193,293</u>	<u>176,906</u>
Net fee and commission income	<u>₩ 1,078,045</u>	<u>₩ 1,104,744</u>

¹ The fees from financial assets/liabilities at fair value through profit or loss.

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28. Net gains or losses from financial assets/liabilities at fair value through profit or loss

Net gains or losses from financial assets/liabilities at fair value through profit or loss held for trading includes interest income, dividend income, gains or losses arising from changes in the fair values, sales and redemptions. The details for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 298,762	₩ 251,490
Equity securities	12,314	31,829
	<u>311,076</u>	<u>283,319</u>
Derivatives held for trading		
Interest rate	1,313,083	1,031,352
Currency	1,886,636	2,491,176
Stock or index	44,775	49,267
Other	801	2,252
	<u>3,245,295</u>	<u>3,574,047</u>
Financial liabilities held for trading	-	197
Other financial instruments	47	69
	<u>3,556,418</u>	<u>3,857,632</u>
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	19,553	71,706
Equity securities	34,118	29,034
	<u>53,671</u>	<u>100,740</u>
Derivatives held for trading		
Interest rate	1,361,647	1,022,572
Currency	1,763,895	1,975,892
Stock or index	20,346	65,177
Other	401	2,268
	<u>3,146,289</u>	<u>3,065,909</u>
Financial liabilities held for trading	117	453
Other financial instruments	50	29
	<u>3,200,127</u>	<u>3,167,131</u>
Net gain or loss from financial instruments held for trading	<u>₩ 356,291</u>	<u>₩ 690,501</u>

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29. Other operating income and expenses

The details of other operating income and expenses for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ -	₩ 867
Gains on sale of available-for-sale financial assets	54,769	134,202
	<u>54,769</u>	<u>135,069</u>
Gain on sale of held-to-maturity financial assets	1,668	-
Gains on foreign exchange transactions	1,468,472	1,369,517
Dividend income	75,627	60,789
Others	153,059	161,369
	<u>1,753,595</u>	<u>1,726,744</u>
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on redemption of available-for-sale financial assets	6	65
Losses on sale of available-for-sale financial assets	2,242	15,458
Impairment on available-for-sale financial assets	180,784	155,194
	<u>183,032</u>	<u>170,717</u>
Impairment on held-to-maturity financial assets	-	5
Losses on foreign exchange transactions	1,452,100	1,663,967
Others	887,014	947,441
	<u>2,522,146</u>	<u>2,782,130</u>
Net other operating expenses	<u>₩ (768,551)</u>	<u>₩ (1,055,386)</u>

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30. General and administrative expenses

30.1 General and administrative expenses

The details of general and administrative expenses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,410,106	₩ 1,395,233
Salaries and short-term employee benefits - welfare expense	652,004	631,584
Post-employment benefits - defined benefit plans	148,163	154,404
Post-employment benefits - defined contribution plans	4,425	2,980
Termination benefits	473	19,269
Share-based payments	7,234	14,616
	<u>2,222,405</u>	<u>2,218,086</u>
Depreciation and amortization	<u>211,599</u>	<u>240,248</u>
Other general and administrative expenses		
Rental expense	262,834	267,992
Tax and dues	100,725	100,462
Communication	23,603	25,492
Electricity and utilities	23,312	22,878
Publication	14,681	14,412
Repairs and maintenance	13,798	13,924
Vehicle	9,155	9,745
Travel	3,313	3,817
Training	14,152	16,828
Service fees	85,097	83,967
Others	388,184	378,937
	<u>938,854</u>	<u>938,454</u>
	<u>₩ 3,372,858</u>	<u>₩ 3,396,788</u>

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30.2 Share-based payments

30.2.1 Share options

The details of the share options as of December 31, 2014, are as follows:

<i>(In number of shares)</i>	Grant date	Exercise year (Years)	Number of granted shares¹	Vesting conditions
Series 22	2007.02.08	8	855,000	Service year: 1, 3 years
Series 23	2007.03.23	8	30,000	Service year: 3 years
			<u>885,000</u>	

¹ Granted shares represent the total number of shares initially granted to directors and employees whose options have not been exercised at the end of the reporting period.

The changes in the number of granted share options and the weighted average exercise price for the years ended December 31, 2014 and 2013, are as follows:

<i>(In Korean won, except shares)</i>	2014						
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life (Years)	
Beginning	Expired	Ending					
Series 19	751,651	751,651	-	-	₩ -	-	-
Series 20	25,613	25,613	-	-	-	-	-
Series 21	18,987	18,987	-	-	-	-	-
Series 22	657,498	-	657,498	657,498	77,100	0.11	
Series 23	15,246	-	15,246	15,246	84,500	0.22	
	<u>1,468,995</u>	<u>796,251</u>	<u>672,744</u>	<u>672,744</u>			
Weighted average exercise price	₩ 77,235	₩ 77,207	₩ 77,268	₩ 77,268			

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(In Korean won, except shares)

	2013					
	Number of granted shares			Number of exercisable share	Exercise price per share	Remaining contractual life (Years)
	Beginning	Expired	Ending			
Series 15-1	125,362	125,362	-	-	₩ -	-
Series 15-2	440,928	440,928	-	-	-	-
Series 17	29,441	29,441	-	-	-	-
Series 18	7,212	7,212	-	-	-	-
Series 19	751,651	-	751,651	751,651	77,063	0.23
Series 20	25,613	-	25,613	25,613	81,900	0.32
Series 21	18,987	-	18,987	18,987	76,600	0.82
Series 22	657,498	-	657,498	657,498	77,100	1.11
Series 23	15,246	-	15,246	15,246	84,500	1.22
	<u>2,071,938</u>	<u>602,943</u>	<u>1,468,995</u>	<u>1,468,995</u>		
Weighted average exercise price	₩ 68,909	₩ 48,625	₩ 77,235	₩ 77,235		

The fair value of each option granted is estimated using a Black-Scholes option pricing model based on the assumptions in the table below:

(In Korean won)	Share price	Weighted average exercise price	Expected volatility (%)	Option's expected life (Years)	Expected dividends	Risk free interest rate (%)	Fair value
Series 22 (Directors)	₩ 38,200	₩ 77,100	11.15	0.05	₩ 32	2.07	-
Series 22 (Employees)	38,200	77,100	11.15	0.05	32	2.07	-
Series 23 (Non-executive directors)	38,200	84,500	8.01	0.11	67	2.07	-

The option's expected life is separately estimated for employees and directors using actual historical behavior and projected future behavior to reflect the effects of expected early exercise. Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option. To reflect the changes in exercise price which is indexed to the sum of the major competitors' total market capitalization, cross volatility is used in calculating the expected volatility.

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30.2.2 Share Grants

The Group changed the scheme of share-based payment from share option to share grants in November 2007. The share grant award program is an incentive plan that sets, on grant date, the maximum amount of shares that can be awarded. Actual shares granted at the end of the vesting period is determined in accordance with achievement of pre-specified targets over the vesting period.

The details of the share grants as of December 31, 2013, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares ¹	Vesting conditions
Series 41	2012.08.02	23,521	Service period : 2 years ^{2,3}
Series 43	2012.11.26	13,918	Service period : 2 years ^{2,3}
Series 44	2013.01.01	17,242	Service period : 2 years ^{2,3}
Series 45	2013.01.01	9,698	Service period : 2 years ^{2,3}
Series 46	2013.01.01	103,440	Service period : 2 years ^{2,3}
Series 48	2013.07.23	74,666	Service period : 2 years ^{2,4}
Series 49	2013.07.24	101,828	Service period : 2 years ^{2,4}
Series 50	2013.07.24	82,926	Service period : 2 years ^{2,4}
Series 51	2013.07.25	9,899	Service period : 2 years ^{2,4}
Series 52	2013.08.01	10,278	Service period : 2 years ^{2,4}
Series 53	2013.07.19	69,256	Service period : 3 years ^{2,5}
Series 54	2013.07.23	26,689	Service period : 3 years ^{2,5}
Series 55	2014.01.03	11,060	Service period : 3 years ^{2,6}
Series 56	2013.12.30	17,798	Service period : 2 years ^{2,4}
Series 57	2014.01.01	44,265	Service period : 2 years ^{2,4}
Series 58	2014.01.01	78,700	Service period : 2 years ^{2,4}
Series 59	2014.08.26	9,106	Service period : 2 years ^{2,4}
Deferred grant in 2010	-	171	Satisfied
Deferred grant in 2011	-	8,454	Satisfied
Deferred grant in 2012	-	31,348	Satisfied
Deferred grant in 2013	-	92,316	Satisfied
		836,579	

¹ Granted shares represent the total number of shares initially granted to directors and employees at the end of reporting period.

² Certain portion of the granted shares is compensated over a maximum period of three years.

³ The 30%, 40% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted financial results of the Bank, the targeted relative TSR and the targeted Value-up Index, respectively.

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⁴ The 40%, 30% and 30% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted Value-up Index, the targeted relative TSR and the targeted financial results of the Bank, respectively. However, as for certain number of shares, half of the number of granted shares to be compensated is determined based on the accomplishment of the targeted relative TSR, while the other half is determined by the targeted Value-up Index.

⁵ The 25%, 30% and 45% of the number of granted shares to be compensated are determined upon the accomplishment of the targeted total assets growth rate, the targeted relative TSR and the targeted ROA, respectively.

⁶ The number of granted shares to be compensated is fixed and not linked to performance.

The details of share grants linked to short-term performance as of December 31, 2014, are as follows:

	Grant date	Number of vested shares¹	Vesting conditions
Granted shares for 2010	2010.01.01	363	Satisfied
Granted shares for 2011	2011.01.01	46,845	Satisfied
Granted shares for 2012	2012.01.01	103,177	Satisfied
Granted shares for 2013	2013.01.01	102,343	Satisfied
Granted shares for 2014	2014.01.01	173,132	Proportion to service period

¹ The number of shares, which are exercisable, is determined by the results of performance. The share grants are settled over three years.

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Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as of December 31, 2014, are as follows:

(In Korean won)

	Expected exercise period (Years)	Risk free rate (%)	Fair value (Market performance condition)	Fair value (Non-market performance condition)
Linked to long term performance				
Series 41-1	0.00~3.00	2.07	-	36,389~38,111
Series 41-2	0.00~3.00	2.07	-	36,389~38,111
Series 43	0.00~3.00	2.07	-	36,389~38,111
Series 44	0.00~2.00	2.07	-	36,389~40,662
Series 45	0.00~3.00	2.07	-	36,389~38,111
Series 46	0.00~3.00	2.07	-	36,389~38,111
Series 48	0.56~4.00	2.07	35,029	36,389~36,835
Series 48-1	0.00~3.00	2.07	36,734	36,389~38,111
Series 48-2	0.00~3.00	2.07	38,617	36,389~38,111
Series 49	0.56~4.00	2.07	34,972	36,389~36,835
Series 49-1	0.65~4.00	2.07	34,906	36,389~36,835
Series 49-2	0.00~3.00	2.07	38,617	36,389~38,111
Series 50	0.56~4.00	2.07	34,972	36,389~36,835
Series 50-1	0.00~3.00	2.07	38,617	36,389~38,111
Series 51	0.00~3.00	2.07	38,617	36,389~38,111
Series 52	0.58~4.00	2.07	34,977	36,389~36,835
Series 53	0.00~2.68	2.07	38,284	36,317~40,991
Series 54	0.00~3.00	2.07	38,617	36,389~38,111
Series 55	2.01~5.01	2.08	-	36,551~37,053
Series 56	0.00~3.00	2.07	32,595	36,389~36,835
Series 56-1	0.00~3.00	2.07	36,854	36,389~38,111
Series 57	1.00~4.00	2.07	32,645	36,389~36,835
Series 57-1	0.00~3.00	2.07	38,617	36,389~38,111
Series 58	1.00~4.00	2.07	32,645	36,389~36,835
Series 59	0.00~3.00	2.07	38,617	36,389~38,111
Grant deferred in 2012	0.00~1.00	2.07	-	36,389~38,111
Grant deferred in 2013	0.00~2.00	2.07	-	36,205~38,111
Linked to short-term performance				
Share granted in 2012	0.00~1.00	2.07	-	36,389~38,111
Share granted in 2013	0.00~2.00	2.07	-	36,389~38,111
Share granted in 2014	1.00~3.00	2.07	-	36,389~38,111

Expected volatility is based on the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the grant. And the current stock price as of December 31, 2014, was used for the underlying asset price. Additionally, the average three-year historical dividend rate was used as the expected dividend rate.

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As of December 31, 2014 and 2013, the accrued expenses related to share-based payments including share options and share grants amounted to ₩32,256 million and ₩34,053 million, respectively, and the compensation costs from share options and share grants amounting to ₩7,234 million and ₩14,616 million were incurred during the years ended December 31, 2014 and 2013, respectively. There is no intrinsic value of the vested share options as of December 31, 2014 and 2013.

31. Non-operating income and expenses

The details of non-operating income and expenses for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Non-operating income		
Gains of disposal in property and equipment and assets held for sale	₩ 1,454	₩ 844
Rent received	14,093	12,568
Others	<u>57,535</u>	<u>47,237</u>
	<u>73,082</u>	<u>60,649</u>
Non-operating expenses		
Losses of disposal in property and equipment and assets held for sale	1,163	732
Donation	45,884	53,426
Restoration cost	1,818	709
Others	<u>58,216</u>	<u>29,413</u>
	<u>107,081</u>	<u>84,280</u>
Net non-operating expenses	<u>₩ (33,999)</u>	<u>₩ (23,631)</u>

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32. Income tax expense

Income tax expense for the years ended December 31, 2014 and 2013, consists of:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Tax payable		
Current tax expense	₩ 415,966	₩ 406,642
Adjustments recognized in the period for current tax of prior years	(13,855)	78,543
	<u>402,111</u>	<u>485,185</u>
Changes in deferred income tax assets (liabilities)	<u>(14,876)</u>	<u>(74,982)</u>
Income tax expense of overseas branches	<u>6,202</u>	<u>4,796</u>
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	(70,015)	(10,406)
Comprehensive income of investment under equity method	78	74
Changes in remeasurements of net defined benefit liabilities	26,691	(13,264)
	<u>(43,246)</u>	<u>(23,596)</u>
Consolidated tax effect	<u>(18,957)</u>	<u>(10,504)</u>
Tax expense	<u>₩ 331,234</u>	<u>₩ 380,899</u>

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2014 and 2013, follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Net profit before income tax	₩ 1,360,275	₩ 1,211,611
Tax at the applicable tax rate ¹	₩ 328,724	₩ 292,747
Non-taxable income	(6,091)	(2,551)
Non-deductible expense	10,665	12,943
Tax credit and tax exemption	(141)	(756)
Temporary difference for which no deferred tax is recognized	17,788	47,125
Tax rebate for tax of prior years	(9,375)	32,934
Income tax expense of overseas branches	6,202	4,796
Tax effect of investments in subsidiaries	2,085	1,520
Income tax expense of overseas branch	765	(871)
Consolidated tax effect	(18,957)	(10,504)
Others	(431)	3,516
Tax expense	<u>₩ 331,234</u>	<u>₩ 380,899</u>
Tax expense / Net profit before income tax (%)	24.35	31.44

¹ Applicable income tax rate for ₩200 million and below is 11%, for ₩200 million to ₩20 billion is 22%, and for over ₩20 billion is 24.2%.

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The details of current tax liabilities (income tax payable) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Income tax refund receivable prior to offsetting ¹	₩ (215,345)	₩ (268,266)
Tax payables prior to offsetting ²	414,239	406,080
Tax payables (receivable) after offsetting	198,894	137,814
Adjustment on consolidated tax payable and others ³	(18,956)	(10,504)
Accounts payable ⁴	<u>(172,353)</u>	<u>(125,977)</u>
Current tax payable	<u>₩ 7,585</u>	<u>₩ 1,333</u>

¹ Excludes current tax assets of ₩305,831 million (2013: ₩329,443 million) by uncertain tax position, which do not qualify for offsetting.

² Includes income tax payable of ₩1,338 million and ₩1,333 million under current tax liabilities as of December 31, 2014 and 2013, respectively, which are not to be offset against any income tax refund receivables, such as those of overseas branches.

³ Tax expense reduced due to the adoption of consolidated tax return was reclassified as tax benefit.

⁴ The amount of income tax payable by the Bank is reclassified as accounts payable, not to the tax authority, but to KB Financial Group Inc. due to the adoption of consolidated tax return.

33. Dividends

The dividend to the shareholders of the parent company in respect of the year ended December 31, 2014, of ₩570 per share, amounting to total dividends of ₩230,496 million, is to be proposed at the annual general shareholders' meeting on March 26, 2015. The Group's consolidated financial statements as of December 31, 2014, do not reflect this dividend payable.

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34. Accumulated other comprehensive income

The details of accumulated other comprehensive income for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (4,085)	₩ (110,294)	₩ -	₩ 26,691	₩(87,688)
Currency translation differences	(29,430)	17,281	-	-	(12,149)
Gain(loss) on valuation of available-for-sale financial assets	538,218	360,397	(68,070)	(70,015)	760,530
Gain(loss) on valuation of held- to-maturity financial assets	3	-	(3)	-	-
Gain(loss) on valuation of equity method investments	(57,087)	(33,122)	249	78	(89,882)
	<u>₩ 447,619</u>	<u>₩ 234,262</u>	<u>₩ (67,824)</u>	<u>₩(43,246)</u>	<u>₩570,811</u>

(In millions of Korean won)

	2013				
	Beginning	Changes except for reclassification	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	₩ (45,630)	₩ 54,809	₩ -	₩(13,264)	₩ (4,085)
Currency translation differences	(27,058)	(2,372)	-	-	(29,430)
Gain(loss) on valuation of available-for-sale financial assets	504,223	233,258	(188,857)	(10,406)	538,218
Gain(loss) on valuation of held- to-maturity financial assets	8	-	(5)	-	3
Gain(loss) on valuation of equity method investments	(47,389)	(9,772)	-	74	(57,087)
	<u>₩ 384,154</u>	<u>₩ 275,923</u>	<u>₩ (188,862)</u>	<u>₩(23,596)</u>	<u>₩447,619</u>

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35. Trust Accounts

Financial information of the trust accounts the Group manages as of and for the years ended December 31, 2014 and 2013, is as follows:

(In millions of Korean won)

	2014		2013	
	Total assets	Operating revenues	Total assets	Operating revenues
Consolidated	₩ 3,614,835	₩ 150,598	₩ 3,462,823	₩ 138,479
Unconsolidated	28,062,557	1,230,286	22,541,883	1,073,136
	<u>₩ 31,677,392</u>	<u>₩ 1,380,884</u>	<u>₩ 26,004,706</u>	<u>₩ 1,211,615</u>

¹ Financial information of the trust accounts has been prepared in accordance with the Statement of Korea Accounting Standard 5004, *Trust Accounts*, and enforcement regulations of Financial Investment Services under the Financial Investment Services and Capital Markets Act.

Significant transactions between the Group and the trust accounts for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014	2013
Revenues		
Fees and commissions from trust accounts	₩ 203,426	₩ 137,558
Commissions from early termination in trust accounts	129	69
	<u>203,555</u>	<u>137,627</u>
Expenses		
Interest expenses on due to trust accounts	<u>52,664</u>	<u>62,543</u>
Assets		
Accrued trust fees	<u>24,054</u>	<u>23,332</u>
Liabilities		
Due to trust accounts	2,548,578	2,423,675
Accrued interest on due to trust accounts	5,790	4,576
	<u>2,554,368</u>	<u>2,428,251</u>

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36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Cash	₩ 2,018,753	₩ 1,963,148
Checks with other banks	525,452	734,574
Due from Bank of Korea	6,508,623	7,119,962
Due from other financial institutions	4,920,682	3,912,566
	<u>13,973,510</u>	<u>13,730,250</u>
Restricted due from financial institutions	(6,877,675)	(7,470,062)
Due from financial institutions with original maturities over three months	(763,775)	(427,548)
	<u>(7,641,450)</u>	<u>(7,897,610)</u>
	<u>₩ 6,332,060</u>	<u>₩ 5,832,640</u>

Significant non-cash transactions for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	2014	2013
Decrease in loans due to the write-offs	₩1,589,912	₩1,677,292
Changes in accumulated other comprehensive income due to valuation of financial investments	222,309	33,990
Changes in accumulated other comprehensive income due to investment in associates	(32,795)	(9,698)
Changes in investment in associates due to debt-for-equity swap with Ssangyong Engineering & Construction Co., Ltd.	-	28,779
Changes in financial investments due to debt-for-equity swap with Taihan Electric Wire Co., Ltd.	-	115,716
Changes in financial investments due to debt-for-equity swap with Hyundai Cement Co., Ltd.	25,178	-

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	Activities	2014	2013
Income tax paid	Operating	₩ 303,291	₩ 561,998
Interest received	Operating	10,204,384	11,030,359
Interest paid	Operating	4,834,915	6,025,179
Dividends received	Operating	82,897	62,221
Dividends paid	Financing	158,517	282,039

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37. Contingent liabilities and commitments

Acceptances and guarantees as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 428,815	₩ 448,906
Others	669,233	782,645
	<u>1,098,048</u>	<u>1,231,551</u>
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	327,963	281,049
Letter of guarantees	61,081	57,596
Bid bond	43,362	24,212
Performance bond	1,175,330	999,872
Refund guarantees	1,494,023	2,263,202
Others	959,685	906,106
	<u>4,061,444</u>	<u>4,532,037</u>
Financial guarantees		
Acceptances and guarantee for issue of debentures	51,200	20,200
Acceptances and guarantees for mortgage	75,651	43,272
Overseas debt guarantees	392,021	319,080
International financing guarantees in foreign currencies	35,949	41,896
Others	600	-
	<u>555,421</u>	<u>424,448</u>
	<u>5,714,913</u>	<u>6,188,036</u>
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,825,919	3,265,906
Refund guarantees	1,060,413	775,181
	<u>3,886,332</u>	<u>4,041,087</u>
	<u>₩9,601,245</u>	<u>₩10,229,123</u>

Acceptances and guarantees by counterparty as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>			
	<u>Confirmed guarantees</u>	<u>Unconfirmed guarantees</u>	<u>Total</u>	<u>Proportion (%)</u>
Corporations	₩ 4,699,777	₩ 2,936,635	₩ 7,636,412	79.53
Small companies	857,004	562,655	1,419,659	14.79
Public and others	158,132	387,042	545,174	5.68
	<u>₩ 5,714,913</u>	<u>₩ 3,886,332</u>	<u>₩ 9,601,245</u>	<u>100.00</u>

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	2013			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Corporations	₩ 4,998,055	₩ 2,723,162	₩ 7,721,217	75.48
Small companies	1,029,029	623,803	1,652,832	16.16
Public and others	160,952	694,122	855,074	8.36
	<u>₩ 6,188,036</u>	<u>₩ 4,041,087</u>	<u>₩ 10,229,123</u>	<u>100.00</u>

Acceptances and guarantees by industry as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 213,286	₩ 3,573	₩ 216,859	2.26
Manufacturing	3,179,368	2,410,472	5,589,840	58.22
Service	583,302	114,645	697,947	7.27
Wholesale and retail	932,282	788,804	1,721,086	17.93
Construction	709,582	215,382	924,964	9.63
Public	72,964	336,484	409,448	4.26
Others	24,129	16,972	41,101	0.43
	<u>₩ 5,714,913</u>	<u>₩ 3,886,332</u>	<u>₩ 9,601,245</u>	<u>100.00</u>

(In millions of Korean won)

	2013			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 145,198	₩ 3,924	₩ 149,122	1.46
Manufacturing	3,867,871	2,270,253	6,138,124	60.01
Service	523,698	115,710	639,408	6.25
Wholesale and retail	1,083,263	745,658	1,828,921	17.88
Construction	484,754	244,727	729,481	7.13
Public	72,577	635,326	707,903	6.92
Others	10,675	25,489	36,164	0.35
	<u>₩ 6,188,036</u>	<u>₩ 4,041,087</u>	<u>₩ 10,229,123</u>	<u>100.00</u>

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Commitments as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	<u>2014</u>	<u>2013</u>
Commitments		
Corporate loan commitments	₩43,129,862	₩42,972,292
Retail loan commitments	13,846,701	13,922,285
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Other purchase of security investment	1,635,657	1,465,175
	<u>59,612,220</u>	<u>59,359,752</u>
Financial Guarantees		
Credit line	3,809,478	2,572,424
Purchase of security investment	73,500	100,500
	<u>3,882,978</u>	<u>2,672,924</u>
	<u>₩63,495,198</u>	<u>₩62,032,676</u>

Other Matters (including litigation)

a) The Bank has filed 83 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩812,134 million, and faces 179 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩341,506 million, which arose in the normal course of the business and are still pending as of December 31, 2014.

Meanwhile, certain customers of the Bank have filed lawsuits against the Bank in connection with fees paid for the registration of fixed collateral. The first and second trials are in progress as of December 31, 2014. The Court ruled in favor and partially in favor of the Bank in the first trial and ruled in favor of the Bank in the second and third trials. There is a low probability of potential losses related to the aforementioned lawsuits.

b) According to shareholders' agreement on September 25, 2009, among the Bank, the International Finance Corporation ("IFC") and the remaining shareholders, the Bank granted a put option to IFC with the right to sell shares of JSC Bank Center Credit to itself or its designee. The exercise price is determined at its fair value by mutual agreement between the Bank and IFC. If the price is not agreed by the designated date, it is determined by the value measured by the selected independent external valuation institution. The put option may be exercised by IFC at any time from February 24, 2013 to February 24, 2017.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩26,487 million and ₩57,159 million as of December 31, 2014 and 2013, respectively.

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d) The Bank underwent a tax investigation by the Seoul Regional Tax Office and in early 2007 was assessed additional corporate tax including local income tax of ₩482,755 million. The Bank paid this amount to the Tax authorities. Subsequently, the Bank filed a claim for adjudication in August 2007 for repayment of the amount of ₩482,643 million. The case was closed with a final favorable judgement by the Supreme Court in January 2015.

e) The Bank filed a claim for rectification of education tax paid for revenues regarding the credit card business before the spin-off. The claim was ruled in favor of the Bank by the Supreme Court in December 2012, and the refunded education tax amounting to ₩83,100 million was recognized as income.

Depending on the judgments of the court or the National Tax Service, the beneficiary of refunded education tax might be changed from the Bank to KB Kookmin Card Co., Ltd., in which the possibility is considered relatively low.

f) During the year ended December 31, 2013, the Bank underwent a tax investigation for the fiscal years 2008 to 2012 by the Seoul Regional Tax Office. As a result, the Bank was fined a total of ₩124,357 million for income taxes (including local income taxes) and paid ₩123,330 million, excluding local income tax amounting to ₩1,027 million recognized as non-trade payable as of December 31, 2014. Meanwhile, the appeal to the tax tribunal over the ₩114,283 million is currently pending as of December 31, 2014.

g) In relation to a tax credit for research and human resource development expenses, the Bank filed an administrative litigation (the aggregate amount in 2007 and 2008) and received a refund in the amount of ₩16,371 million from National Tax Service based on a recent Supreme Court precedent. However, the appeal to the tax tribunal (the aggregate amount in 2009 is ₩13,827 million) is currently pending as of December 31, 2014.

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38. Subsidiaries

The details of subsidiaries as of December 31, 2014, are as follows:

Name of subsidiaries	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hong Kong Ltd.	100.00	Hong Kong	Banking and foreign exchange transaction
Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others ¹	-	Korea	Trust
KAMCO Value Recreation 3rd Securitization Specialty Co., Ltd. and 6 others ²	-	Korea and others	Asset-backed securitization and others
Heungkuk Multi Private Securities H-19 and 37 others ³	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1st ³	86.00	Korea	Investment Trust
KB Star Retail Private Master Real Estate 1 ^{2,4}	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Investment Trust No.2 ^{2,4}	38.22	Korea	Investment Trust

¹ The Bank controls the trust because it has power that determines the management performance over the trust and is exposed to variable returns to absorb losses through the guarantees of payment of principal or, payment of principal and fixed rate of return.

² The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power, even though it holds less than a majority of the voting rights of the investees.

³ The Bank controls these investees because it is exposed to variable returns from its involvement with the investees and has ability to affect those returns through its power.

⁴ Ownerships are based on consolidated basis.

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The condensed financial information of major subsidiaries as of December 31, 2014 and 2013, and for the years ended December 31, 2014 and 2013, follows:

(In millions of Korean won)

	2014				
	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year
Kookmin Bank Int'l Ltd.(London)	₩ 441,292	₩ 365,483	₩ 75,809	₩ 11,069	₩ 3,466
Kookmin Bank Hong Kong Ltd.	639,509	498,960	140,549	16,495	8,616
Kookmin Bank Cambodia PLC.	95,864	74,578	21,286	6,021	266
Kookmin Bank (China) Ltd.	1,259,847	846,151	413,696	43,507	7,984
Personal pension trust and 10 others	3,667,615	3,571,818	95,797	167,608	(443)

(In millions of Korean won)

	2013				
	Assets	Liabilities	Equity	Operating revenue	Profit (loss) for the year
Kookmin Bank Int'l Ltd. (London)	₩ 381,179	₩ 311,990	₩ 69,189	₩ 10,253	₩ 3,242
Kookmin Bank Hong Kong Ltd.	533,542	405,755	127,787	16,869	6,282
Kookmin Bank Cambodia PLC.	94,835	74,666	20,169	6,391	2,859
Kookmin Bank (China) Ltd.	1,143,619	753,289	390,330	34,691	(16,168)
Personal pension trust and 10 others	3,492,556	3,399,885	92,671	134,793	2,021

Changes in non-controlling interest

The Group acquired additional equity interests in Kookmin Bank Cambodia PLC. in June 2013 for ₩1,463 million, with the carrying amount of the non-controlling interest amounting to ₩1,495 million. The Group derecognized non-controlling interests and recorded an increase in equity attributable to shareholders of the parent company of ₩32 million. As of December 31, 2014, the Group has 100% ownership.

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity

- The Bank provides the capital commitment of ₩258,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩185,717 million has not been utilized. Based on the investment agreement, the Bank is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.
- The Bank provides the guarantees of payment of principal or principal and fixed rate of return, in case the operating results of the trusts are less than the guaranteed principal or principal and a fixed rate of return.

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Changes in subsidiaries

KB Star Office Private Real Estate Investment Trust No.2, Heungkuk Multi Private Securities H-19 and 100 other private equity funds were newly consolidated during the year ended December 31, 2014. KB Covered Bond First Securitization Specialty Co., Ltd. and three other SPCs, and KB Evergreen Private Securities 82 and 91 other private equity funds were excluded from the consolidation due to their liquidation.

39. Unconsolidated Structured Entity

As of December 31, 2014, the nature, purpose and activities of the unconsolidated structured entities and how the structured entities are financed, are as follows:

Nature	Purpose	Activities	Methods of Financing
Asset-backed securitization	Early cash generation through transfer of securitization assets Fees earned as services to SPC, such as providing lines of credit and ABCP purchase commitments	Fulfillment of Asset-backed securitization plan Purchase and collection securitization assets Issuance and repayment of ABS and ABCP	Issuance of ABS and ABCP based on securitization assets
Project Financing	Granting PF loans to SOC and real property Granting loans to ships/aircrafts SPC	Construction of SOC and real property Building ships/ Construction and purchase of aircrafts	Loan commitments through Credit Line, providing lines of credit and investment agreements
Investment funds	Investment in beneficiary certificates Investment in PEF and partnerships	Management of fund assets Payment of fund fees and allocation of fund profits	Sales of beneficiary certificate instruments Investment of managing partners and limited partners

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As of December 31, 2014, the size of the unconsolidated structured entities and the risks associated with its interests in unconsolidated structured entities are as follows:

(In millions of Korean won)

	2014				
	Asset-backed securitization	Project Financing	Investment funds	Others	Total
Total assets of the unconsolidated structured entities	₩ 9,953,552	₩ 19,901,366	₩ 6,072,832	₩ 5,923,270	₩ 41,851,020
Carrying amount on financial statements					
Assets					
Loans	192,619	2,315,744	-	252,195	2,760,558
Financial investments	564,156	13,778	912,042	17,000	1,506,976
Investments in associates	-	-	387,510	-	387,510
Other assets	2	-	-	-	2
	<u>₩ 756,777</u>	<u>₩ 2,329,522</u>	<u>₩ 1,299,552</u>	<u>₩ 269,195</u>	<u>₩ 4,655,046</u>
Liabilities					
Deposits	₩ 300,015	₩ 500,538	₩ 15,834	₩ 32,986	₩ 849,373
Maximum exposure to loss ¹	<u>₩ 4,719,103</u>	<u>₩ 4,581,520</u>	<u>₩ 3,597,876</u>	<u>₩ 491,313</u>	<u>₩ 13,389,812</u>
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

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	2013				
	Asset-backed securitization	Project Financing	Investment funds	Others	Total
Total assets of the unconsolidated structured entities	₩ 11,030,382	₩ 24,570,257	₩ 4,385,796	₩ 3,502,834	₩43,489,269
Carrying amount on financial statements					
Assets					
Loans	314,380	2,477,166	-	291,599	3,083,145
Financial investments	873,909	213,882	710,800	-	1,798,591
Investments in associates	-	-	392,389	-	392,389
	<u>₩ 1,188,289</u>	<u>₩ 2,691,048</u>	<u>₩ 1,103,189</u>	<u>₩ 291,599</u>	<u>₩ 5,274,125</u>
Liabilities					
Deposits	₩ 306,931	₩ 487,818	₩ 21,459	₩ 5,473	₩ 821,681
Other liabilities	-	96	-	-	96
	<u>₩ 306,931</u>	<u>₩ 487,914</u>	<u>₩ 21,459</u>	<u>₩ 5,473</u>	<u>₩ 821,777</u>
Maximum exposure to loss ¹	<u>₩ 3,903,764</u>	<u>₩ 5,116,533</u>	<u>₩ 2,670,626</u>	<u>₩ 386,000</u>	<u>₩12,076,923</u>
Methods of determining the maximum exposure to loss	Providing lines of credit and purchase commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

¹ Maximum exposure to loss includes the asset amounts, after deducting loss (provision for assets, impairment losses and others), recognized in the consolidated financial statements of the Group.

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40. Finance and Operating Leases

40.1 Finance lease

The future minimum lease payments as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Net carrying amount of finance lease assets	₩ 44,138	₩ 16,955
Minimum lease payment		
Within 1 year	₩ 11,902	₩ 1,927
1-5 years	<u>1,637</u>	<u>-</u>
	<u>₩ 13,539</u>	<u>₩ 1,927</u>
Present value of minimum lease payment		
Within 1 year	₩ 11,632	₩ 1,873
1-5 years	<u>1,609</u>	<u>-</u>
	<u>₩ 13,241</u>	<u>₩ 1,873</u>

40.2 Operating lease

40.2.1 The Group as operating lessee

The future minimum lease payments arising from the non-cancellable lease contracts as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Minimum lease payment		
Within 1 year	₩ 232,436	₩ 116,681
1-5 years	107,806	97,021
Over 5 years	<u>90,191</u>	<u>62</u>
	<u>₩ 34,439</u>	<u>₩ 213,764</u>
Minimum sublease payment	(703)	(735)

The lease payments reflected in profit or loss for the years ended December 31, 2014 and 2013, are as follows:

<i>(in millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Lease payment reflected in profit or loss		
Minimum lease payment	₩ 190,745	₩ 198,216
Sublease payment	<u>191,285</u>	<u>(497)</u>
	<u>₩ (540)</u>	<u>₩ 197,719</u>

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40.2.2 The Group as operating lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2014 and 2013, are as follows:

<i>(In millions of Korean won)</i>	<u>2014</u>	<u>2013</u>
Minimum lease receipts		
Within 1 year	₩ 9,445	₩ 9,181
1-5 years	<u>15,636</u>	<u>22,348</u>
	<u>₩25,081</u>	<u>₩31,529</u>

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
Parent			
KB Financial Group Inc.	Fee and commission income	273	1,225
	Other non-operating income	1,400	1,459
	Interest expense	1,961	3,159
Parent's subsidiaries			
KB Investment Co., Ltd.	Other non-operating income	-	1
	Interest expense	766	372
KB Data System Co., Ltd.	Fee and commission income	1	2
	Other non-operating income	49	50
	Interest expense	345	411
	General and administrative expenses	13,189	13,945
KB Real Estate Trust Co., Ltd.	Fee and commission income	4	22
	Other non-operating income	43	39
	Interest expense	533	325
	Fee and commission expense	766	895
KB Life Insurance Co., Ltd.	Fee and commission income	15,118	19,496
	Other non-operating income	119	180
	Interest expense	229	8
KB Credit Information Co., Ltd.	Fee and commission income	4	4
	Other non-operating income	409	514
	Interest expense	313	372
	Fee and commission expense	14,829	16,460
KB Asset Management Co., Ltd.	Fee and commission income	472	374
	Other non-operating income	2	-
	Interest expense	1,724	774
	Fee and commission expense	786	531

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		2014	2013
KB Investment and Securities Co., Ltd.	Interest income	245	296
	Fee and commission income	3,353	3,570
	Other non-operating income	664	645
	Reversal of credit losses	1	-
	Interest expense	3,712	4,473
	Fee and commission expense	703	932
	Loss on financial assets/ liabilities at fair value through profit or loss	2	-
	Provision for credit losses	1	2
KB Kookmin Card Co., Ltd.	Interest income	2,912	2,912
	Fee and commission income	222,644	214,199
	Gains on financial assets/ liabilities at fair value through profit or loss	20	44
	Other non-operating income	1,556	1,107
	Interest expense	7,753	4,161
	Fee and commission expense	338	187
	Provision for credit losses	-	359
	General and administrative expenses	180	43
KB Savings Bank Co., Ltd.	Fee and commission income	105	226
	Other non-operating income	7	1
	Interest expense	-	3,551
KB Capital Co., Ltd.	Fee and commission income	129	-
	Gains on financial assets/ liabilities at fair value through profit or loss	6	-
	Other non-operating income	49	-
	Interest expense	1	-
KB Mezzanine Private Securities Fund	Fee and commission income	758	798
Hanbando BTL Private Special Asset Fund	Fee and commission income	195	199
Associates			
KB08-1 Venture Investment Partnership ¹	Interest expense	-	131
KB12-1 Venture Investment Partnership	Interest expense	134	218
Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
	Interest expense	66	139
UAMCO., Ltd.	Interest income	-	31
	Fee and commission income	14	-
	Interest expense	12	-
	Other operating expense	-	7,626
United PF 1st Recovery Private Equity Fund	Interest income	-	91
	Reversal of credit losses	-	83
Pyungjeon Industries Co., Ltd. ¹	Reversal of credit losses	-	1,055
Kores Co., Ltd. ¹	Interest income	-	386
	Reversal of credit losses	-	36
Incheon Bridge Co., Ltd.	Interest income	13,226	14,592
	Reversal of credit losses	-	2

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		2014	2013
	Provision for credit losses	2	-
	Interest expense	543	909
Future Planning KB Start-up Creation Fund	Interest expense	19	39
Ssangyong Engineering & Construction Co., Ltd. ¹	Interest income	-	2,007
	Reversal of credit losses	-	7,550
Sunoo, Inc. ¹	Interest expense	-	1
Daiyang Metal Co., Ltd. ¹	Interest income	-	3
KB Star Office Private Real Estate Investment Trust No. ¹	Interest expense	50	75
Subsidiary of Parent's subsidiary			
KB09-5 Venture Investment Partnership	Interest expense	12	-
Associates of Parent's subsidiaries			
Semiland Co., Ltd. ¹	Interest income	8	14
	Reversal for credit losses	4	-
KB Global Star Game & Apps SPAC ¹	Interest expense	-	10
Sehwa Electronics Co., Ltd. ¹	Gains on financial assets/ liabilities at fair value through profit or loss	-	35
	Fee and commission expense	-	7
Serit Platform Co., Ltd. ¹	Interest income	-	58
	Fee and commission income	-	17
	Provision for credit losses	-	74
DSplant Co., Ltd. ¹	Interest income	-	121
	Fee and commission income	-	4
	Reversal of credit losses	-	2
	Interest expense	-	2
	Loss on financial assets/ liabilities at fair value through profit or loss	-	26
KB IC 3rd Recovery Private Equity Fund	Interest expense	38	91
KB No.2 Special Purpose Acquisition Company ¹	Interest expense	1	-
KB No.3 Special Purpose Acquisition Company	Interest expense	6	-
KB No.4 Special Purpose Acquisition Company	Interest expense	9	-
KB No.5 Special Purpose Acquisition Company	Interest expense	4	-
KB No.6 Special Purpose Acquisition Company	Interest expense	4	-
Other			
Retirement pension	Fee and commission income	448	386
	Interest expense	788	1,971

¹ Not considered to be the Group's related party as at December 31, 2014.

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The details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
Parent			
KB Financial Group Inc.	Other assets	465	2
	Deposits	30,739	77,298
	Other liabilities	224,763	180,329
Parent's subsidiaries			
KB Investment Co., Ltd.	Deposits	37,219	11,052
	Other liabilities	198	36
KB Data System Co., Ltd.	Other assets	1,037	4,670
	Deposits	19,790	15,275
	Other liabilities	1,214	401
KB Real Estate Trust Co., Ltd.	Deposits	96,087	15,190
	Other liabilities	651	378
KB Life Insurance Co., Ltd.	Other assets	1,342	1,696
	Deposits	57	585
	Debts	30,000	5,000
	Other liabilities	41	389
KB Credit Information Co., Ltd.	Deposits	6,766	10,796
	Other liabilities	6,193	7,942
KB Asset Management Co., Ltd.	Other assets	127	56
	Deposits	69,453	60,341
	Other liabilities	439	582
KB Investment and Securities Co., Ltd.	Cash and due from financial institutions	945	834
	Gross amounts of loans and receivables	34,997	32,995
	Allowances	15	13
	Other assets	327	707
	Deposits	105,449	356,989
	Other liabilities	8,993	5,775
	Provisions	4	5
KB Kookmin Card Co., Ltd.	Other assets	27,382	25,495
	Deposits	454,205	264,717
	Other liabilities	36,546	37,157
	Provisions	416	416
KB Savings Bank Co., Ltd.	Other assets	14	9
KB Capital Co., Ltd.	Other assets	5	-
	Deposits	534	-
KB Mezzanine Private Securities Fund	Other assets	167	199
Hanbando BTL Private Special Asset Fund	Other assets	49	50

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		2014	2013
Associates			
KB08-1 Venture Investment Partnership ¹	Deposits	-	5,212
	Other liabilities	-	2
KB12-1 Venture Investment Partnership	Deposits	9,767	3,072
	Other liabilities	10	4
Korea Credit Bureau Co., Ltd.	Deposits	24,715	20,200
	Other liabilities	17	64
UAMCO., Ltd.	Deposits	1,654	5
	Provisions	-	192
United PF 1st Recovery Private Equity Fund	Provisions	-	82
Kores Co., Ltd. ¹	Gross amounts of loans and receivables	-	7,854
	Allowances	-	3,836
	Other liabilities	-	2
Incheon Bridge Co., Ltd.	Gross amounts of loans and receivables	247,870	249,362
	Allowances	302	300
	Other assets	1,144	1,343
	Deposits	35,421	30,991
	Other liabilities	249	240
JSC Bank CenterCredit	Cash and due from financial institutions	178	353
Future Planning KB Start-up Creation Fund	Deposits	-	5,033
	Other liabilities	-	6
Ssangyong Engineering & Construction Co., Ltd. ¹	Gross amounts of loans and receivables	-	47,104
	Allowances	-	38,784
	Deposits	-	61
	Other liabilities	-	14
Terra Corporation	Deposits	1	1
KB Star Office Private Real Estate Investment Trust No.1	Deposits	6,067	8,142
	Other liabilities	-	31
Associates of Parent's subsidiaries			
Semiland Co., Ltd. ¹	Gross amounts of loans and receivables	-	19
	Deposits	-	1
	Provisions	-	3
KB IC 3rd Recovery Private Equity Fund	Deposits	1,400	1,400
	Other liabilities	24	25
KB Glenwood Private Equity Fund	Deposits	-	1
KB No.3 Special Purpose Acquisition Company	Deposits	832	-
	Other liabilities	6	-
KB No.4 Special Purpose Acquisition Company	Deposits	2,500	-
	Other liabilities	1	-
KB No.5 Special Purpose Acquisition Company	Deposits	2,389	-
	Other liabilities	1	-

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		2014	2013
KB No.6 Special Purpose Acquisition Company	Deposits	4,406	-
	Other liabilities	3	-
Key management	Gross amounts of loans and receivables	2,325	4,578
	Allowances	-	1
	Other assets	3	6
	Deposits	18,378	6,932
	Other liabilities	171	111
	Provisions	-	2
Other			
Retirement pension	Other assets	191	166
	Deposits	41,412	48,840
	Other liabilities	246	908

¹ Deemed not to be related as of December 31, 2014; therefore, the 2014 balances are not presented.

In accordance with Korean IFRS 1024, the Group includes parent, parent's subsidiaries, associates, associates of parent's subsidiaries, key management (including family members), and post-employment benefit plans of the Group and entities regarded as its related parties in the scope of its related parties. Additionally, the Group discloses balances (receivables and payables) and other amounts arising from the related party transactions in the notes to the consolidated financial statements. Refer to Note 13 for details on investments in associates.

Key management includes the directors of the parent company and the executive directors (vice-presidents and above) of the Bank and companies where the directors and /or their close family members have control or joint control.

Significant loan transactions with related parties for the years ended December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

	2014 ¹				
	Beginning	Loans	Repayments	Other	Ending
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩ 32,995	₩ 2,002	₩ -	₩ -	₩ 34,997
Associate					
Incheon Bridge Co., Ltd.	249,362	12,360	13,852	-	247,870

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	2013 ¹				
	Beginning	Loans	Repayments	Other	Ending
Parent's subsidiary					
KB Investment and Securities Co., Ltd.	₩	-	₩32,995	₩	-
				₩	32,995
Associates					
United PF 1st Recovery Private Equity Fund	2,805	1,913	4,718	-	-
UAMCO., Ltd.	-	47,181	47,181	-	-
Kores Co., Ltd. ²	7,854	900	900	-	7,854
Incheon Bridge Co., Ltd.	263,080	8,777	22,495	-	249,362
Ssangyong Engineering & Construction Co., Ltd. ²	46,275	36,843	36,014	-	47,104
Associate of Parent's subsidiary					
Semiland Co., Ltd. ²	-	86	67	-	19

¹Transactions and balances arising from operating activities between related parties, such as settlements, are excluded.

² Not considered to be the Group's related party as at December 31, 2014.

The settlement transactions and deposits arising from operating activities with related parties are excluded and there are no other borrowing transactions.

Unused commitments to related parties as of December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
KB Investment and Securities Co., Ltd.	Loan commitment in won	₩ 12,503	₩ 14,505
KB Kookmin Card Co., Ltd. ¹	Loan commitment in won	520,000	520,000
	Other commitments in won	1,000,000	1,000,000
KB Mezzanine Private Securities Fund	Commitments on purchase of security investment	18,359	18,359
KB Mezzanine Private Security Investment Trust No.2	Commitments on purchase of security investment	70,312	-
Hanbando BTL Private Special Asset Fund	Commitments on purchase of security investment	15,931	15,931
KB Hope Sharing BTL Private Special Asset	Commitments on purchase of security investment	48,045	51,172
Balhae Infrastructure Fund	Commitments on purchase of security investment	21,744	21,744
UAMCO., Ltd.	Loan commitment in won	-	127,800
	Commitments on purchase of security investment	89,950	89,950
KB12-1 Venture Investment Partnership	Commitments on purchase of security investment	11,200	16,800

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		2014	2013
KoFC KBIC Frontier Champ 2010-5(PEF)	Commitments on purchase of security investment	1,290	1,320
United PF 1st Recovery Private Equity Fund	Loan commitment in won	-	54,600
	Commitments on purchase of security investment	49,383	49,383
Incheon Bridge Co., Ltd.	Loan commitment in won	33,163	42,088
KoFC POSCO HANHWA KB shared growth Private Equity Fund	Commitments on purchase of security investment	19,000	28,780
Future Planning KB Start-up Creation Fund	Commitments on purchase of security investment	16,000	16,000
KB GwS Private Equity Trust and others	Loan commitment	372	757
	Commitments on purchase of security investment	876	876

Unused commitments received from related party entities as at December 31, 2014 and 2013, are as follows:

(In millions of Korean won)

		2014	2013
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 5,917	₩ 10,056
KB Real Estate Trust Co., Ltd.	Commitments on purchase of security investment	4,319	5,119
KB Life Insurance Co., Ltd.	Commitments on purchase of security investment	21,595	25,595
KB Investment and Securities Co., Ltd.	Commitments on purchase of security investment	4,319	5,119
KB Kookmin Card Co., Ltd.	Loan commitment in won	79,164	84,789
Associate			
Ssangyong Engineering & Construction Co., Ltd. ¹	Guarantee in won	-	293,500

¹ Deemed not to be related as of December 31, 2014; therefore, the 2014 balances are not presented.

Compensation to key management for the years ended December 31, 2014 and 2013, consists of:

(In millions of Korean won)

	2014			
	Short-term employee benefits	Post-employment benefit	Share-based payments	Total
Registered directors (executive)	₩ 1,405	₩ 63	₩ 1,162	₩ 2,630
Registered directors (non-executive)	457	-	-	457
Non-registered directors	4,860	296	3,685	8,841
	<u>₩ 6,722</u>	<u>₩ 359</u>	<u>₩ 4,847</u>	<u>₩11,928</u>

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	2013			
	Short-term employee benefits	Post- employment benefit	Share-based payments	Total
Registered directors (executive)	₩ 1,487	₩ 103	₩ 449	₩ 2,039
Registered directors (non-executive)	364	-	-	364
Non-registered directors	4,324	918	3,722	8,964
	<u>₩ 6,175</u>	<u>₩ 1,021</u>	<u>₩ 4,171</u>	<u>₩11,367</u>

Significant transactions occurring between the Group and related parties include the establishment of deposit accounts, issuance of general purpose loans, loans on business transactions and trade receivables, and providing foreign currency remittances and related services. Other significant transactions include the grant of credit due to acceptance of banker's usance that the Bank issues and overdraft credit accounts arising from net settlement agreement between the Bank and KB Kookmin Card Co., Ltd.

Collateral offered to related parties as of December 31, 2014 and 2013, follows:

(In millions of Korean won)

	Assets pledged	2014		2013	
		Carrying amount	Collateralized amount	Carrying amount	Collateralized amount
Parent's subsidiaries					
KB Investment and Securities Co., Ltd.	Securities	₩ 54,084	₩ 54,000	₩ 59,076	₩ 59,000
KB Life Insurance Co., Ltd.	Securities	16,326	15,000	-	-
	Building / Land	114,609	39,000	114,609	19,500

Collateral received from related parties as of December 31, 2014 and 2013, follows:

(In millions of Korean won)

		2014	2013
Parent's subsidiaries			
KB Investment and Securities Co., Ltd.	Time deposits	₩ 52,440	₩ 52,440
KB Kookmin Card Co., Ltd.	Time deposits	22,000	30,000
Associates			
Kores Co., Ltd. ¹	Row house	-	24
	Apartment	-	24
	Factory / Forest land	-	15,000
Incheon Bridge Co., Ltd.	Fund management account for		
	Standby loan commitment	65,000	65,000
Key management			
	Time deposits and others	257	207
	Real estate	3,583	7,381

¹ Deemed not to be related as of September 30, 2014; therefore, the 2014 balances are not presented.

Kookmin Bank and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

As of December 31, 2014, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated collaterals in respect to collateralized amount for ₩816,400 million to a financial syndicate consisting of the Bank and four other institutions, and as subordinated collaterals in respect to collateralized amount for ₩201,100 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are contingently liable for the payables of the Bank before the spin-off date.

42. Approval of Issuance of the Financial Statements

The issuance of the Group's consolidated financial statements as of and for the year ended December 31, 2014, was approved by the Board of Directors on February 4, 2015.

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of
Kakao Corporation (formerly Daum Kakao Corporation)

We have audited the accompanying consolidated financial statements of Kakao Corporation (formerly Daum Kakao Corporation) and its subsidiaries (collectively the "Company"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kakao Corporation and its subsidiaries as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
March 18, 2016

This report is effective as of March 18, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Consolidated Statements of Financial Position
December 31, 2015 and 2014

(in millions of Korean won)

	Notes	2015	2014
Assets			
Current assets			
Cash and cash equivalents	4,5,7,8	₩ 397,177	₩ 451,228
Short-term financial instruments	4,5,7	373,389	184,548
Derivative financial instruments	4,5,7,23	5,241	1,516
Trade receivables	4,5,7,10	88,822	108,431
Other current financial assets	4,5,7,11	59,619	25,843
Inventories		5,353	2,016
Other current assets	14	40,466	24,709
		<u>970,067</u>	<u>798,291</u>
Non-current assets			
Long-term financial instruments	4,5	10,193	-
Available-for-sale securities	5,7,9	30,892	25,258
Investments in associates	15	68,704	18,712
Other non-current financial assets	4,5,7,11	23,040	33,702
Property and equipment	16	219,052	196,894
Intangible assets	17	1,855,604	1,688,974
Other non-current assets	14	9,592	3,308
Deferred income tax assets	21	1,334	2,886
		<u>2,218,411</u>	<u>1,969,734</u>
Total assets		<u>₩3,188,478</u>	<u>₩2,768,025</u>
Liabilities and Equity			
Current Liabilities			
Trade and other payables	4,5,7,12	₩ 89,506	₩ 109,126
Other current financial liabilities	4,5,7,13	3,673	5,443
Income tax payable		29,448	20,680
Provisions	22	1,149	1,364
Other current liabilities	14	161,643	90,825
Short-term borrowings	4,5,7,18	22,055	50
Current portion of long-term borrowings	4,5,7,18	100	-
Derivative financial Instruments	4,5,7,23	8,504	-
		<u>316,078</u>	<u>227,488</u>
Non-current liabilities			
Non-current trade and other payables	4,5,7,12	611	1,724
Long-term borrowings	4,5,7,18	292	250
Corporate bonds	4,5,7,18	199,383	-
Non-current provisions	22	3,402	1,801
Net defined benefit liabilities	19	8,311	3,362
Other long-term employee benefits liabilities	20	24,968	20,027
Deferred income tax liabilities	21	48,637	50,083
Other non-current financial liabilities	4,5,7,13	1,321	62
		<u>286,925</u>	<u>77,309</u>
Total liabilities		<u>₩ 603,003</u>	<u>₩ 304,797</u>
Equity			
Capital stock	1,24	₩ 30,098	₩ 29,121
Capital surplus	24	2,274,186	2,258,974
Other component of equity	25,26	(9,032)	(26,268)
Accumulated other comprehensive income	27	829	2,114
Retained earnings	28	256,313	190,678
Equity attributable to owners of the Parent Company		<u>2,552,394</u>	<u>2,454,619</u>
Non-controlling interest		33,081	8,609
Total equity		<u>2,585,475</u>	<u>2,463,228</u>
Total liabilities and equity		<u>₩3,188,478</u>	<u>₩2,768,025</u>

The accompanying notes are an integral part of these consolidated financial statements.

Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014

(in millions of Korean won, except per share data)

	Note	2015	2014
Revenue	6	₩932,152	₩498,858
Operating expenses	29	<u>843,564</u>	<u>322,431</u>
Operating income		88,588	176,427
Other non-operating income	30	25,198	1,651
Other non-operating expenses	30	25,977	13,146
Finance income	31	29,904	6,638
Finance expenses	31	3,697	129
Equity in earnings (loss) of associates, net	15	<u>(4,473)</u>	<u>(2,612)</u>
Profit before income tax		<u>109,543</u>	<u>168,829</u>
Income tax expense	21	<u>30,778</u>	<u>19,008</u>
Net income		<u>78,765</u>	<u>149,822</u>
Net income attributable to:			
Equity holders of the Parent Company		75,666	150,105
Non-controlling interest		<u>3,099</u>	<u>(283)</u>
Other comprehensive income (loss)			
Items not to be reclassified subsequently to profit or loss:			
Remeasurements of net defined benefit liability		(3,712)	(755)
Items to be reclassified subsequently to profit or loss:			
Gains on valuation of available-for-sale financial assets, net of tax		1,098	2,636
Shares of other comprehensive income of associates, net of tax		429	3,091
Foreign currency translation adjustments, net of tax		<u>893</u>	<u>81</u>
Total comprehensive income		<u>₩ 77,473</u>	<u>₩154,875</u>
Total comprehensive income attributable to:			
Equity holders of the Parent Company		₩ 74,380	₩155,135
Non-controlling interest		<u>₩ 3,093</u>	<u>₩ (260)</u>
Earnings per share to the equity holders of the Parent Company	32		
Basic earnings per share		₩ 1,269	₩ 3,243
Diluted earnings per share		<u>₩ 1,220</u>	<u>₩ 3,007</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Consolidated Statements of Changes in Equity
Years ended December 31, 2015 and 2014**

(in millions of Korean won)

	Attributable to equity holders of the Parent Company									
	Note	Common Stock	Preferred Stock	Capital Surplus	Other components of Equity	Accumulated other comprehensive Income (loss)	Retained Earnings	Total	Non-controlling interest	Total Equity
Balance at January 1, 2014		₩ 15,934	₩ 5,063	₩ 112,347	₩ 6,256	₩ (2,916)	₩ 40,573	₩ 177,256	₩ -	₩ 177,257
Comprehensive income:										
Profit for the year		-	-	-	-	-	150,105	150,105	(283)	149,822
Gain on valuation of available-for-sale securities, net of tax		-	-	-	-	2,636	-	2,636	-	2,636
Remeasurement of defined benefit obligation		-	-	-	-	(755)	-	(755)	-	(755)
Foreign currency translation adjustments, net of tax		-	-	-	-	58	-	58	23	81
Shares of other comprehensive income of associates, net of tax		-	-	-	-	3,091	-	3,091	-	3,091
Total comprehensive income for the year		-	-	-	-	5,030	150,105	155,136	(260)	154,875
Transactions with equity holders:										
Conversion of convertible preferred stocks	24	5,063	(5,063)	-	-	-	-	-	-	-
Exercise of stock options	25	1,293	-	14,632	(3,247)	-	-	12,678	-	12,678
Stock compensation		-	-	-	2,876	-	-	2,876	72	2,948
Change in ownership interest over subsidiaries		-	-	-	-	-	-	-	355	355
Acquisition of treasury shares		-	-	-	(1,259)	-	-	(1,259)	-	(1,259)
Disposal of treasury shares		-	-	-	24,449	-	-	(24,449)	-	24,449
Issuance of common stock due to merger		6,831	-	2,131,995	(55,343)	-	-	2,083,483	8,442	2,091,925
Total transactions with equity holders		13,187	(5,063)	2,146,627	(32,524)	-	-	2,122,227	8,869	2,131,096
Balance at December 31, 2014		₩ 29,121	₩ -	₩ 2,258,974	₩ (26,268)	₩ 2,114	₩ 190,678	₩ 2,454,619	₩ 8,609	₩ 2,463,228

The accompanying notes are an integral part of these consolidated financial statements.

**Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Consolidated Statements of Changes in Equity
Years ended December 31, 2015 and 2014**

(in millions of Korean won)

	Attributable to equity holders of the Parent Company									
	Note	Common Stock	Preferred Stock	Capital Surplus	Other components of Equity	Accumulated other comprehensive income (loss)	Retained Earnings	Total	Non-controlling interest	Total Equity
Balance at January 1, 2015		₩ 29,121	₩ -	₩ 2,258,974	₩ (26,268)	₩ 2,114	₩ 190,678	₩ 2,454,619	₩ 8,609	₩ 2,463,228
Comprehensive income:										
Profit for the year		-	-	-	-	-	75,666	75,666	3,099	78,765
Gain on valuation of available-for-sale securities, net of tax		-	-	-	-	1,098	-	1,098	-	1,098
Remeasurement of defined benefit obligation		-	-	-	-	(3,701)	-	(3,701)	(11)	(3,712)
Foreign currency translation adjustments, net of tax		-	-	-	-	896	-	896	(2)	894
Shares of other comprehensive income of associates, net of tax		-	-	-	-	422	-	422	6	429
Total comprehensive income for the year		-	-	-	-	(1,285)	75,666	74,380	3,092	77,474
Transactions with equity holders:										
Exercise of stock options	25	977	-	16,114	(3,441)	-	-	13,649	(540)	13,109
Stock compensation		-	-	-	692	-	-	692	505	1,197
Cash dividends		-	-	-	-	-	(10,030)	(10,030)	(1,571)	(11,601)
Disposal of treasury shares		-	-	-	19,985	-	-	19,985	-	19,985
Donated stocks of a subsidiary from shareholders		-	-	14,592	-	-	-	14,592	(93)	14,498
Change in ownership interest over subsidiaries		-	-	(15,494)	-	-	-	(15,494)	(51)	(15,545)
Change in scope of consolidation		-	-	-	-	-	-	-	23,130	23,130
Total transactions with equity holders		977	-	15,212	17,236	-	(10,030)	23,395	21,380	44,773
Balance at December 31, 2015		₩ 30,098	₩ -	₩ 2,274,186	₩ (9,032)	₩ 829	₩ 256,314	₩ 2,552,394	₩ 33,081	₩ 2,585,475

The accompanying notes are an integral part of these consolidated financial statements.

Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014

(in millions of Korean won)

	Note	2015	2014
Cash flows from operating activities			
Cash generated from operating activities	34	₩ 187,359	₩213,969
Interest income received		10,577	6,988
Interest expense paid		(728)	(1)
Dividend income		83	-
Income tax paid		(35,074)	(622)
Net cash inflow from operating activities		<u>162,217</u>	<u>220,334</u>
Cash flows from investing activities			
Decrease (increase) in short-term financial instruments		(186,579)	18,277
Increase in long-term financial instruments		(10,029)	-
Purchase of property and equipment	16	(76,083)	(12,829)
Disposal of property and equipment	16	1,191	55
Purchase of intangible assets	17	(8,772)	(9,752)
Disposal of intangible assets	17	1,609	-
Acquisition of available-for-sale securities		(8,779)	(937)
Disposal of available-for-sale securities		21,587	117
Acquisition of associates	15	(65,749)	(5,000)
Disposal of associates		9,785	-
Acquisition of subsidiaries, net of cash acquired		(60,505)	(5,480)
Net cash inflow due to merger		-	187,299
Disposal of subsidiaries, net of cash acquired		4,431	-
Decrease in leasehold deposits		20,049	2,720
Decrease in short-term loans receivables		2,028	30
Cash flows from business acquisition		(36,329)	-
Increase in short-term loan receivables		(2,845)	-
Increase in long-term advance payments		(3,948)	-
Acquisition of derivative financial instruments		(5,000)	-
Increase in leasehold deposits		(11,714)	(1,874)
Other cash inflow from investing activities		2,027	194
Other cash outflow from investing activities		(616)	(220)
Net cash inflow(outflow) from investing activities		<u>(414,241)</u>	<u>172,600</u>
Cash flows from financing activities			
Acquisition of treasury shares		-	(1,259)
Disposal of treasury shares		-	23,963
Repayments of short-term borrowings		(50)	-
Repayments of current portion of long-term borrowings		(50)	-
Proceeds from short-term borrowings		3	-
Exercise of stock options		13,109	12,678
Issuance of corporate bonds		199,366	-
Issuance of redeemable convertible preferred stock		12,000	-
Payments of dividends		(11,601)	-
Acquisition of non-controlling interest		(19,067)	-
Allocation of investments		(1,231)	-
New shares issued by subsidiaries (to non-controlling interest shareholders)		4,750	-
Other cash inflow from financing activities		4	-
Other cash outflow from financing activities		(1)	-
Net cash inflow from financing activities		<u>₩ 197,232</u>	<u>₩ 35,382</u>
Net increase (decrease) in cash and cash equivalents		<u>₩ (54,791)</u>	<u>₩428,316</u>
Cash and cash equivalents at the beginning of year		451,228	23,417
Effect of exchange rate changes on cash and cash equivalents		741	(505)
Cash and cash equivalents at the end of year		<u>₩ 397,177</u>	<u>₩451,228</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

1. General Information

Kakao Corporation (the “Parent Company”; formerly Daum Kakao Corporation) has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*, and its consolidated subsidiaries include Daum Global Holdings and 46 other entities.

1.1 The Company

General information about Kakao Corporation and its subsidiaries (collectively the “Company”) is as follows:

The Parent Company was incorporated in February 1995 to develop computer programs and provide internet service and mainly engaged in the online mobile services business such as provision of online advertising services, mobile payment services and messaging service, application development and mobile platform establishment.

On October 1, 2014, Daum Communications Corporation merged with Kakao Corporation, with the approval of the Board of Directors on May 23, 2014, and the shareholders on August 27, 2014. The Parent Company changed its name to Daum Kakao Corporation as ratified by the shareholders on October 31, 2014, and changed again to Kakao Corporation with the shareholders’ approval on September 23, 2015.

Daum Communications Corporation, the surviving company or the legal acquirer, merged with Kakao Corporation, the merged company or the legal acquiree, and Daum Communications Corporation issued 1.5555137 shares of its common stock for each share of Kakao Corporation. However, Kakao Corporation was recognized as the acquiring company in a reverse merger for accounting purposes.

The Parent Company’s headquarter is located in Youngpyong-dong, Jeju City, in Jeju Province, Korea. As of December 31, 2015, the Parent Company’s capital stock amounted to ₩30,098 million and the Parent Company’s shareholders are as follows:

	Number of shares	Percentage of ownership (%)
Kim Bum Soo	12,574,461	20.92
Kcube holdings Co., Ltd.,	9,953,467	16.56
MAXIMO PTE. LTD.	5,599,849	9.32
Other related parties	1,955,118	3.25
Others	30,008,005	49.94
	<hr/> 60,090,900	<hr/> 99.99
Treasury stock	5,188	0.01
	<hr/> 60,096,088	<hr/> 100.00

**Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Details of the consolidated subsidiaries as of December 31, 2015, are as follows:

(in millions of Korean won, except number of shares)

Subsidiaries	Capital Stock	Primary Business	Location	Closing Month	Number of shares	Percentage of ownership (%)
Daum Global Holdings	5,198	Holding company	Korea	December	1,039,560	100.0
PATH MOBILE INC. PTE. LTD. (Formerly Daum Kakao Singapore Corp. Pte. Ltd.) ¹	61,057	Service operations	Singapore	December	73,128,000	100.0
DK Service(Formerly Daum Service) ²	511	Service operations	Korea	December	102,136	100.0
DK Techn ²	493	Service operations	Korea	December	98,605	100.0
DK Business ³	1,072	Service operations	Korea	December	214,434	100.0
Daum Service CHINA Co., Ltd ³	1,093	Service operations	China	December	1	100.0
Daum Service CHINA YanJiao Co., Ltd. ⁴	175	Service operations	China	December	1	100.0
Imageon (Formerly Pix View)	2,370	Contents development	Korea	December	474,000	100.0
Daum Games	8,561	Game development and services	Korea	December	1,712,193	100.0
Daum Games Europe B.V. ⁵	106	Game development and services	Netherlands	December	130,231	100.0
Buzzpia	253	Mobile services	Korea	December	50,604	100.0
Thinkreals Corp.	58	Software development and services	Korea	December	115,000	100.0
Lotiple Inc.	74	Software development and services	Korea	December	148,120	100.0
Kakao Lab Corp.	743	Software development and services	Korea	December	1,485,520	99.9
Sunnyloft Corp.	413	Software development and services	Korea	December	82,590	100.0
KAKAO SINGAPORE PTE. Ltd.	299	Software development and services	Singapore	December	3,300	100.0
Beijing KAKAO Co., Ltd.	20,483	Software development and services	China	December	18,839,700	99.9
Ultra Caption Corp.	28	Software development and services	Korea	December	5,600	100.0
Ultra Interactive, Inc. ⁶	18	Software development and services	United States	December	1,000,000	100.0
KAKAO JAPAN Corp.	1,291	Software development and services	Japan	December	322,824	100.0
Kids Note Co., Ltd.	75	Software development and services	Korea	December	21,367	100.0
K Venture Group ⁷	12,845	Holding company	Korea	December	1,284,538	100.0
TNK Factory ⁸	408	Mobile advertisement platform operations	Korea	December	714,400	87.5

**Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

(in millions of Korean won, except number of shares)

Subsidiaries	Capital Stock	Primary Business	Location	Closing Month	Number of shares	Percentage of ownership (%)
Sellit Inc. ⁹	54	Software consultation	Korea	December	98,281	70.0
K Cube Ventures ¹⁰	18,511	Holding company	Korea	December	3,702,216	100.0
K Cube Venture Fund no.1 ¹¹	8,439	Investment/Holding company	Korea	December	681	60.6
KAKAO Venture Fund ^{11,12}	30,000	Investment/Holding company	Korea	December	110	36.7
Locnall Inc. ¹³	431	Software development and services	Korea	December	130,231	100.0
Kakao friends ⁷	1,600	Contents sales	Korea	December	160,000	100.0
Tangram Design Lab Inc. ⁹	157	Product design	Korea	December	16,003	51.0
Tangram Factory ¹⁴	2,329	Convergent service technology production and distribution	Korea	December	314,521	67.5
TANGRAM FACTORY AMERICA, INC. ¹⁵	27	Convergent service technology production and distribution	United States	December	2,715	100.0
Valuepotion ⁹	67	Mobile marketing service	Korea	December	9,333	70.0
Valuepotion.Pte.LTD ¹⁶	404	Mobile marketing service	Singapore	December	476,541	100.0
Cardoc ⁹	391	Online informaion service	Korea	December	273,788	70.1
NZIN Corp. ⁹	55	Game development and services	Korea	December	22,727	57.9
Genie labs ¹⁷	10	Software development and services	Korea	December	10,480	52.4
Aina ¹⁷	754	Game development and services	Korea	December	1,055,157	70.0
Mmagnet ¹⁷	100	Game development and services	Korea	December	11,000	55.0
BULLHOC soft ¹⁷	214	Game development and services	Korea	December	21,686	50.6
NGLE ¹⁷	205	Game development and services	Korea	December	210,000	51.2
SuperNova11 Corp. ¹⁸	125	Game development and services	Korea	December	141,532	56.5
Black Star Games Inc. ¹⁹	31	Game development and services	Korea	December	6,200	100.0
Red Star Games Inc. ¹⁹	31	Game development and services	Korea	December	6,200	100.0
about-time ²⁰	11	Software development and services	Korea	December	22,223	100.0
Podotree Inc. ²¹	1,700	Software development and services	Korea	December	4,011,859	65.6

¹ As a subsidiary of Daum Global Holdings, the number of shares and the percentage of ownership represent Daum Global Holdings' ownership as of December 31, 2015.

**Kakao Corporation and Subsidiaries
(Formerly Daum Kakao Corporation)
Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

- ² Established by division of the former Daum Service, the number of shares and the percentage of ownership represents the Parent Company's ownership as of December 31, 2015.
- ³ Acquired by the Parent Company from DK Service in 2015, the number of shares and the percentage of ownership represent the Parent Company's ownership as of December 31, 2015.
- ⁴ As a subsidiary of Daum Service CHINA Co., Ltd., the number of shares and the percentage of ownership represent Daum Service CHINA Co., Ltd.'s ownership as of December 31, 2015.
- ⁵ As a subsidiary of Daum Games, the number of shares and the percentage of ownership represent Daum Games's ownership as of December 31, 2015.
- ⁶ As a subsidiary of Ultra Caption Corp., the number of shares and the percentage of ownership represent Ultra Capssong Corp.'s ownership as of December 31, 2015.
- ⁷ Newly established in 2015.
- ⁸ During 2015, the Parent Company additionally acquired 102,000 shares (12.5% ownership) in TNK Factory. As a result, the percentage of ownership has increased to 87.5%.
- ⁹ As a subsidiary of K Venture Group, the number of shares and the percentage of ownership represent K Venture Group's ownership as of December 31, 2015.
- ¹⁰ During 2015, the Parent Company newly acquired 3,702,216 shares (100% ownership).
- ¹¹ As a subsidiary of K Cube Ventures, the number of shares and the percentage of ownership represent Parent Company and K Cube Ventures' ownership as of December 31, 2015.
- ¹² Classified as subsidiary although the ownership is less than 50% as the Company is considered to have a control over KAKAO Venture Fund.
- ¹³ During 2015, the Parent Company newly acquired 130,231 shares (100% ownership).
- ¹⁴ As a subsidiary of Tangram Design Lab Inc., the number of shares and the percentage of ownership represent Tangram Design Lab Inc.'s ownership as of December 31, 2015.
- ¹⁵ As a subsidiary of Tangram Factory, the number of shares and the percentage of ownership represent Tangram Factory's ownership as of December 31, 2015.
- ¹⁶ As a subsidiary of Valuepotion, the number of shares and the percentage of ownership represent Valuepotion's ownership as of December 31, 2015.
- ¹⁷ As a subsidiary of NZIN Corp., the number of shares and the percentage of ownership represent NZIN Corp's ownership as of December 31, 2015.
- ¹⁸ During 2015, the Parent Company newly acquired 141,532 shares (56.5% ownership).
- ¹⁹ As a subsidiary of SuperNova11 Corp., the number of shares and the percentage of ownership represent SuperNova11 Corp.'s ownership as of December 31, 2015.
- ²⁰ During 2015, the Parent Company newly acquired 22,223 shares (100% ownership).
- ²¹ During 2015, the Parent Company acquired 4,011,859 shares (65.6% ownership) from its purchase of the outstanding stocks and shares donated by shareholders of the Parent Company.

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The summarized financial information for consolidated subsidiaries as of and for the year ended December 31, 2015, is as follows:

(in millions of Korean won)

	2015						
	Assets	Liabilities	Equity	Revenue	Net income (loss)	Comprehensive income (loss)	
	₩	₩	₩	₩	₩	₩	₩
Kakao Lab Corp.	237	170	67	851	(13)	(13)	
Thinkreals Corp.	1,712	-	1,712	-	(36)	(36)	
Lotiple Inc.	161	-	161	-	(18)	(18)	
Sunnyloft Corp.	19	3	16	30	18	18	
KAKAO SINGAPORE PTE. Ltd.	87	4	83	199	(31)	(32)	
Beijing KAKAO Co., Ltd.	19,009	1,385	17,624	321	(2,361)	(2,004)	
Ultra Caption Corp. ¹	542	98	444	8	(511)	(511)	
KAKAO JAPAN Corp.	11,890	258	11,633	669	(2,107)	(938)	
DK Service	2,612	1,731	881	20,703	254	(8)	
DK Techn	1,462	957	505	1,985	(174)	(227)	
DK business	2,339	1,084	1,255	3,908	(10)	(81)	
Daum Global Holdings ¹	58,732	4,679	54,053	346	1,210	(3,053)	
Imageon (Formerly Pix View)	3,245	1,080	2,165	5,191	520	495	
TNK Factory	16,021	3,255	12,766	21,058	2,511	2,473	
Buzzpia	7,992	700	7,292	282	(1,546)	(1,546)	
Daum Game	50,118	12,272	37,845	32,198	(6,518)	(6,444)	
Kids Note Co., Ltd.	1,525	1,177	348	38	(1,761)	(1,761)	
K Venture Group	132,084	965	131,119	-	(1,395)	(1,395)	
K Cube Ventures	19,808	149	19,659	762	115	115	
K Cube Venture Fund no.1	16,424	188	16,236	-	11,889	11,904	
KAKAO Venture Fund	28,675	188	28,488	-	1,091	1,099	
Kakao friends	27,025	3,593	23,432	10,342	1,635	1,635	
Locnall Inc.	6,065	8,262	(2,197)	955	(2,310)	(1,931)	
Sellit Inc.	1,446	1,017	429	633	(1,133)	(1,133)	
Daum Games Europe B.V.	2,818	3,587	(770)	-	(871)	(876)	
Daum Service CHINA Co., Ltd. ¹	936	223	713	1,400	28	42	
Tangram Design Lab Inc. ¹	8,608	4,605	4,003	508	(1,070)	(1,086)	
Cardoc	3,021	642	2,380	122	(413)	(413)	
Valuepotion ¹	1,608	1,103	505	145	(310)	(319)	
NZIN Corp. ¹	42,482	45,307	(2,826)	576	(3,085)	(3,196)	
SuperNova11 Corp. ¹	4,305	2,203	2,102	-	-	-	
Podotree Inc.	11,800	28,556	(16,756)	-	-	78	
about-time	154	37	117	-	-	-	
Total	₩484,962	₩129,478	₩355,484	₩103,230	₩(6,402)	₩(9,162)	

¹ Presented based on the consolidation basis including their subsidiaries

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2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Company 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 financial statements have been, 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 Company's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Company

The Company newly applied the following amended and enacted standards for the annual period beginning on January 1, 2015:

- Amendment to Korean IFRS 1019, *Employee Benefits*

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Korean IFRS 1019, *Employee Benefits*, allows a practical expedient for companies that operate defined benefit plans and when contributions are made by employees or third parties. The application of this amendment does not have a material impact on the consolidated financial statements.

- Annual Improvements to Korean IFRS 2010-2012 Cycle

- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of a 'vesting conditions', 'performance condition', and 'service condition'.

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies the classification and measurement of contingent consideration in the business combination.

- Amendment to Korean IFRS 1108, *Operating Segments*

Korean IFRS 1108, *Operating Segments*, requires disclosures of the judgments made by management in aggregating operating segments and a reconciliation of the reportable segments' assets to the entity's assets.

- Amendment to Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*

Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*, clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- Amendment to Korean IFRS 1024, *Related Party Disclosures*

Korean IFRS 1024, *Related Party Disclosures*, includes, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

- Annual Improvements to Korean IFRS 2011-2013 Cycle:

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies that Korean IFRS 1103 does not apply to the accounting for the formation of any joint arrangement.

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- Amendment to Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, clarifies that the portfolio exception, which allows an entity to measure the fair value of a group of financial instruments on a net basis, applies to all contracts (including non-financial contracts) within the scope of Korean IFRS 1039.

- Amendment to Korean IFRS 1040, *Investment property*

Korean IFRS 1040, *Investment property*, clarifies that Korean IFRS 1040 and Korean IFRS 1103 are not mutually exclusive.

The above standards and amendments which are effective for the annual period beginning on January 1, 2015, do not have a material impact on the consolidated financial statements of the Company.

(b) New standards and amendments not yet adopted by the Company

New amendments issued but not effective for the fiscal year beginning January 1, 2015, and not early adopted are enumerated below. The Company expects that these amendments would not have a material impact on its consolidated financial statements.

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1041, *Agriculture and fishing: Productive plants*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements*, Korean IFRS 1028, *Investments in Associates and Joint Ventures*, and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*
- Korean IFRS 1111, *Joint Arrangements*
- Annual Improvements to Korean IFRS 2012-2014 Cycle

Further, new standards issued, but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below:

- Korean IFRS 1109, *Financial Instruments*

The new standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

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Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics. The standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss model, and changes in those expected credit losses are recognized in profit or loss. The new standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Company is in the process of evaluating the effects resulting from the adoption of the new standard.

- Korean IFRS 1115, *Revenue from Contracts with Customers*

The new Standard for the recognition of revenue issued in December 2015 will replace Korean IFRS1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related *Interpretations*.

Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new standard is effective for annual reporting beginning on or after January 1, 2018, but early application is permitted. The Company is in the process of evaluating the effects resulting from the adoption of the new standard

2.3 Consolidation

The Company has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

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The Company applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by standards. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated during the consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

In transactions with non-controlling interest, which do not result in loss of control, the Company recognizes directly in equity any difference between the amount of the non-controlling interests and the fair value of the consideration paid or received, and attributes it to the owners of the Parent Company.

(b) Non-controlling interests

The Company attributes the profit or loss and each component of other comprehensive income to the owners of the Parent Company and to the non-controlling interests. The Company also attributes total comprehensive income to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

(c) Associates

Associates are all entities over which the Company has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's

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interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Company recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(d) Joint arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method

2.4 Segment Reporting

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision maker (Note 6). The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

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Exchange differences arising from non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and in other comprehensive income, respectively, as part of the fair value gain or loss.

(c) Translation into the presentation currency

The results of operations and financial position of the Company's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period.
- Income and expenses for each statements of income are translated at average rates; and
- Equity is translated at the historical exchange rate; and
- All resulting exchange differences are recognized in other comprehensive income.

2.6 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits in banks, and other short-term highly liquid investments with original maturities of three months or less.

2.7 Financial Assets

(a) Classification and measurement

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on the trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

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(b) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account and impairment of other financial assets is directly deducted from book value of the assets. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than 30% from its cost or a prolonged decline below its cost for more than six months is also objective evidence of impairment.

(c) Derecognition

If the Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially all of the risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the consolidated statement of financial position.

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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2.8 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the consolidated statement of comprehensive income as 'finance income (expenses)' according to the nature of transactions.

2.9 Trade Receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Long-term trade receivables classified as non-current asset are measured at the present value using the effective interest method.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method.

2.11 Property and Equipment

Property and equipment are stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on property and equipment, except land, is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	Estimated useful life
Buildings	40 years
Structures	20 years
Machinery and equipment	4–5 years
Vehicles	5 years
Furniture and fixtures	2–5 years

The depreciation method, residual values and useful lives of property and equipment are reviewed and adjusted at each financial year-end, if appropriate, accounted for as changes in accounting estimates.

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2.12 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Company will comply with the conditions attached to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants recognized as income are deferred and presented by deducting the expenses related to the purpose of the government grants.

2.13 Intangible Assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and business combination are included in intangible assets. Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary, associates, joint ventures and businesses at the date of acquisition. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is recognized immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or group of CGUs, that is expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell.

(b) Membership rights and Brand

Membership rights and Brand are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

(c) Other intangible assets

Intangible assets such as industrial rights and development costs are initially recognized at its historical costs and amortized using the straight-line method over their estimated useful lives. Other intangible assets have definite useful life and are carried at cost less accumulated amortization.

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Their estimated useful lives of other Intangible assets are as follows:

	Estimated useful life
Industrial rights	10 years
Development costs	5 years
Others	2–15 years

2.14 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as 'trade payables and other payables', 'borrowings' in the statement of financial position.

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statement of comprehensive income as 'finance expenses', together with interest expenses recognized relating to other financial liabilities.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

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2.16 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.17 Current and Deferred Income Tax

Income tax expense for the period consists of current and deferred tax. Income tax is recognized as income or expense for the period in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, income tax is also recognized in other comprehensive income or directly in equity, respectively. Income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit (loss).

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2.18 Employee Benefits

(a) Post-employment benefits

The Company operates pension plans. The Company has both defined contribution plans and defined benefit plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expenses when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

(b) Share-based payments

Equity-settled share-based payments granted to employees are estimated at the grant date fair value of equity instruments and recognized as employee benefit expenses over the vesting period. The number of equity instruments expected to vest is remeasured with consideration to non-market vesting conditions at the end of the reporting period, with any changes from the original measurement recognized in profit or loss for the year and equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are recognized as capital stock (nominal value) and capital surplus.

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(c) Other long-term employee benefits

The Parent Company and certain subsidiaries provide long-term employee benefits, which are entitled to employees with service period for at least three years. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by independent qualified actuaries.

2.19 Treasury Stock

Where the Company purchases its own equity share capital (treasury stock), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity until the shares are cancelled or reissued. Where such treasury shares are subsequently reissued, any consideration received is recognized in equity attributable to the Company's equity.

2.20 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Company. It is presented as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Rendering of services

Revenue from internet services is recognized when such services are rendered and the other revenue is recognized when substantially all contractual obligations of the service have been fulfilled by the Company based on the terms of the contracts.

(b) Sale of goods

Revenue from the sale of goods is recognized when products are delivered to the customer.

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(c) Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognized using the original effective interest rate.

(d) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.21 Dividend

Dividend to the Company's shareholders is recognized as a liability in the financial statements in the year in which the dividends are approved by the Company's shareholders.

2.22 Earnings per share

Basic earnings per share is calculated by dividing net profit for the year available to common shareholders by the weighted-average number of common shares outstanding during the year. Diluted earnings per share are calculated using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of common equivalent shares outstanding.

2.23 Business Combination under a Common Control

Book value method applies to a business combination under a common control. Related assets and liabilities are measured at book value of the consolidated financial statements. In addition, the difference between the sum of book values of the assets and liabilities transferred and the consideration paid is recognized as capital surplus.

2.24 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2015 financial statements of the Company was approved by the Board of Directors on March 4, 2016, which is subject to change with approval at the annual shareholders' meeting.

3. Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably

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predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units are determined based on value-in-use calculations (Note 17).

(b) Income taxes

The Company is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 21).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

(c) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company 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 (Note 5).

(d) Provisions

As of December 31, 2015, the Company recognizes provisions as explained in Notes 2.16. These provisions are estimated based on past experience.

(e) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 19).

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(f) Other long-term employee benefits liability

The present value of other long-term employee benefits liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 20).

4. Financial Risk Management

4.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

4.1.1 Market risk

i) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates.

As of December 31, 2015, if the market interest rate of floating rate deposits had increased/decreased by 100bp with other variables held constant, the effect on profit before income tax for the year ended December 31, 2015, would have been increased/decreased by ₩3,927 million due to increased/decreased interest income of floating rate deposits.

ii) Price risk

The Company invests in debt and equity securities for managing liquidity, operational needs and others. The Company's investment portfolio consists of direct and indirect investments in listed and non-listed securities.

There are no listed securities held by the Company exposed to price risk as of December 31, 2015.

iii) Foreign exchange risk

Foreign exchange risk is defined as the risk that the fair value of financial instruments or future cash flows fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises from

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financial instruments presented in currencies other than functional currency. Therefore, foreign exchange risk does not arise from non-monetary financial instruments or financial instruments presented in functional currency.

There are no material assets or liabilities exposed to foreign exchange risk as of December 31, 2015.

4.1.2 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks or financial institutions, as well as credit exposures to customers, including outstanding receivables (Note 8).

Details of the Company's level of maximum exposure to credit risk as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Cash and cash equivalents	₩397,177	₩451,225
Short-term financial instruments	373,389	184,548
Trade receivables	88,822	108,431
Derivative financial instruments	5,241	1,516
Other current financial assets	59,619	25,843
Long-term financial instruments	10,193	-
Other non-current financial assets	23,040	33,702
	<u>₩957,481</u>	<u>₩805,265</u>

4.1.3 Liquidity risk

Cash flow forecasting is performed by the Company finance department. The Company finance department monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

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Details of the Company's liquidity risk analysis as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015		
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Trade and other payables	₩ 89,611	₩ -	₩ -
Short-term borrowings ¹	31,656	-	-
Current portion of long-term borrowings	101	-	-
Long-term borrowings	5	47	279
Corporate bonds	4,834	4,834	204,834
Other current financial liabilities	3,673	-	-
Non-current trade and other payables	-	-	611
Other non-current financial liabilities	-	-	1,321
	<u>₩129,880</u>	<u>₩ 4,881</u>	<u>₩ 207,045</u>

¹ Redeemable convertible preferred shares issued by the subsidiaries and total cash flows up to the point of early repayment amounting to ₩27,712 million included.

(in millions of Korean won)

	2014		
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Trade and other payables	₩109,168	₩ -	₩ -
Other current financial liabilities	5,443	-	-
Short-term borrowings	52	-	-
Long-term borrowings	5	5	284
Non-current trade and other payables	-	1,800	132
Other non-current financial liabilities	-	61	-
	<u>₩114,668</u>	<u>₩ 1,866</u>	<u>₩ 416</u>

The table above analyses the Company's non-derivative financial liabilities into relevant maturity. The amounts disclosed in the table are the contractual undiscounted cash liabilities flows.

4.2. Capital Risk Management

The Company's objectives when managing capital are to maintain an optimal capital structure. The Company monitors financial ratios such as debt-to-equity ratio, which is calculated by dividing total liabilities by total equity.

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The debt-to-capital ratios as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>		2015	2014
Total liabilities (A)		₩ 603,003	₩ 304,797
Total equity (B)		2,585,475	2,463,228
Debt-to-capital ratio (A/B)		23.32%	12.37%

4.3. Offsetting Financial Assets and Financial Liabilities

Details of the Company's recognized financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	2015				
	Gross assets	Gross liabilities offset	Net amounts presented in the statement of financial position	Amounts not offset	Net amount
Trade receivables ¹	₩54,932	₩ 14,551	₩40,381	₩ -	₩40,381

¹ The amount presented includes the amount after offsetting trade receivables from media Labs and agency fee.

5. Fair Value

5.1 Fair Value of Financial Instruments

Carrying amount and fair value of financial instruments as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	₩397,177	₩397,177	₩451,228	₩451,228
Short-term financial instruments	373,389	373,389	184,548	184,548
Trade receivables	88,822	88,822	108,431	108,431
Other financial assets	59,619	59,619	25,843	25,843
Derivative financial assets	5,241	5,241	1,516	1,516
Available-for-sale securities ¹	28,995	28,995	24,785	24,785
Long-term financial instruments	10,193	10,193	-	-
Other non-current financial assets	23,040	23,040	33,702	33,702
	<u>₩986,477</u>	<u>₩986,477</u>	<u>₩830,053</u>	<u>₩830,053</u>

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	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Trade and other payables	₩ 89,506	₩ 89,506	₩109,126	₩109,126
Short-term borrowings	22,055	22,055	50	50
Other financial liabilities	3,673	3,673	5,443	5,443
Non-current trade and other payables	611	611	1,724	1,724
Corporate bonds	199,383	199,383	-	-
Current portion of long-term borrowings	100	100	-	-
Long-term borrowings	292	292	250	250
Derivative financial liabilities	8,504	8,504	-	-
Other non-current financial liabilities	1,321	1,321	62	62
	<u>₩325,445</u>	<u>₩325,445</u>	<u>₩116,655</u>	<u>₩116,655</u>

¹ Certain equity securities, which are measured at cost since quoted market prices do not exist in an active market and their fair values cannot be measured reliably, are excluded.

5.2 Financial Instruments Measured at Cost

Available-for-sale securities measured at cost as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)	2015	2014
Daum Soft	₩ 327	₩327
M2COMM	-	147
Epipolar	20	-
Lunosoft Inc.	1,250	-
NURIDA Corporation	200	-
Momo Corp.	100	-
	<u>₩1,897</u>	<u>₩474</u>

5.3 Fair Value Hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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Fair value hierarchy classifications of the financial assets that are measured at fair value as of December 31, 2015:

(in millions of Korean won)

	2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities	₩2,126	₩ -	₩26,869	₩28,995
Derivative financial assets	-	5,024	217	5,241
	<u>₩2,126</u>	<u>₩5,024</u>	<u>₩27,086</u>	<u>₩34,237</u>

5.4 Valuation Technique and Inputs

The fair value of financial instruments 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, a company in the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of KOSPI and KOSDAQ equity investments classified as trading securities or available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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 an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

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As of December 31, 2015, valuation technique and the inputs used for recurring and non-recurring fair value measurements and disclosed fair value that are categorized within Level 2 and Level 3 of the fair value hierarchy are as follows:

<i>(in millions of Korean won)</i>	Fair value	Level	Valuation technique	Inputs of level 3
Available-for-sale securities				
TransLink Capital Partners II, L.P.	₩ 8,341	3	Discounted cash flow	Estimated cash flow, discount rate
TransLink Capital Partners III, L.P.	2,824	3	Discounted cash flow	Estimated cash flow, discount rate
Collaborative Fund II, L.P.	2,204	3	Discounted cash flow	Estimated cash flow, discount rate
Altos Korea opportunity Fund	2,780	3	Discounted cash flow	Estimated cash flow, discount rate
Strong Seed Fund I	439	3	Discounted cash flow	Estimated cash flow, discount rate
2010 KIF–Stonebridge IT Venture Fund	1,631	3	Discounted cash flow	Estimated cash flow, discount rate
SMCI Fund7	998	3	Discounted cash flow	Estimated cash flow, discount rate
Mediacreate	2,549	3	Discounted cash flow and comparable company analysis	Estimated cash flows, discount rate, PER and PBR of comparable companies
Quber	183	3	Discounted cash flow	Estimated cash flow, discount rate
Others	4,920	3	Discounted cash flow	Estimated cash flow, discount rate
Total	<u>₩28,869</u>			
Derivative financial assets				
Derivative Linked Security	5,024	2	Discounted cash flow	Estimated cash flow, credit rating
Right for redemption	217	3	Binominal tree model	Probability of risk neutral, increase in risk neutral, decrease in risk neutral
Total	<u>₩ 5,241</u>			
Derivative financial liabilities				
Right for conversion (redeemable convertible preferred shares)	<u>₩ 8,504</u>	3	Binominal tree model	Discount rate, dividend rate, increase and decrease rate

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5.5 Valuation Processes for Fair Value Measurements Categorized Within Level 3

The financial division of the Company performs the fair value measurements required for financial reporting purposes, including level 3 fair values. This division reports to the Chief Financial Officer (CFO) and the Audit Committee (AC), and discusses valuation processes and results with CFO and AC at least once every quarter depending on the materiality.

6. Segment Information

The Company is operated as a single segment.

Breakdown of the Company's revenue for the years ended December 31, 2015 and 2014, is as follows:

(in millions of Korean won)

	2015				
	Advertising	Games	Commerce	Others	Total
Revenue	₩ 586,495	₩234,876	₩ 67,616	₩ 83,648	₩972,635
Inter-company revenue	(2,654)	(2,498)	(375)	(34,956)	(40,483)
Net revenue	<u>₩ 583,841</u>	<u>₩232,378</u>	<u>₩ 67,241</u>	<u>₩ 48,692</u>	<u>₩932,152</u>

(in millions of Korean won)

	2014				
	Advertising	Games	Commerce	Others	Total
Revenue	₩ 212,182	₩234,957	₩ 36,664	₩ 25,224	₩509,027
Inter-company revenue	(732)	(18)	-	(9,419)	(10,169)
Net revenue	<u>₩ 211,450</u>	<u>₩234,939</u>	<u>₩ 36,664</u>	<u>₩ 15,805</u>	<u>₩498,858</u>

Details of external customer, who contributes more than 10% of the Company revenue for the year ended December 31, 2015, are as follows:

(in millions of Korean won)

	Revenue(2015)	Related revenue
Customer 1	₩ 102,279	Games revenue

There was no external customer contributing more than 10% of the total revenue for the year ended December 31, 2014.

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7. Financial Instruments by Category

Categorizations of financial assets and liabilities as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Financial assets at fair value through profit or loss		
Derivative instruments	₩ 5,241	₩ 1,516
Loans and receivables		
Cash and cash equivalents	397,177	451,228
Short-term financial instruments	373,389	184,548
Trade receivables, net	88,822	108,431
Other current financial assets	59,619	25,843
Long-term financial instruments	10,193	-
Other non-current financial assets	23,040	33,702
	<u>952,240</u>	<u>803,752</u>
Available-for-sale financial assets		
Available-for-sale securities	30,892	25,258
	<u>₩988,373</u>	<u>₩830,526</u>
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	₩ 8,504	₩ -
Financial liabilities carried at amortized cost		
Trade and other payables	89,506	109,126
Short-term borrowings	22,055	50
Other financial liabilities	3,673	5,443
Non-current trade and other payables	611	1,724
Corporate bonds	199,383	-
Current portion of long-term borrowings	100	-
Long-term borrowings	292	250
Other non-current financial liabilities	1,321	61
	<u>₩325,445</u>	<u>₩116,654</u>

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Income or loss of financial instruments by category for the years ended December 31, 2015 and 2014, are as follows:

	2015				
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation/disposition (profit or loss)	Interest income (expenses)	Gain (loss) on foreign currency translation	Dividend income
Financial assets					
Financial assets at fair value through profit or loss	₩ -	₩ 1,113	₩ -	₩ -	₩ -
Available-for-sale financial assets	1,449	13,783	(12)	-	83
Loans and receivables	-	(922)	10,953	1,113	-
Financial liabilities					
Financial liabilities carried at amortized costs	-	-	(836)	(2)	-
Total	₩ 1,449	₩ 13,974	₩ 10,105	₩ 1,111	₩ 83

(in millions of Korean won)

	2014				
	Gain (loss) on valuation (other comprehensive income (loss))	Gain (loss) on valuation/disposition (profit or loss)	Interest income (expenses)	Gain (loss) on foreign currency translation	Dividend income
Financial assets					
Financial assets at fair value through profit or loss	₩ -	₩ 388	₩ -	₩ -	₩ -
Loans and receivables	-	(1,583)	5,995	168	-
Available-for-sale financial assets ¹	3,478	(8)	-	-	-
Financial liabilities					
Financial liabilities carried at amortized costs	-	-	(41)	15	-
Total	₩ 3,478	₩ (1,203)	₩ 5,954	₩ 183	₩ -

¹ There was no accumulated other comprehensive income (loss) reclassified to profit or loss during the year ended December 31, 2014.

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8. Credit Quality of Financial Assets

The credit quality of financial deposits that are neither past due nor impaired is assessed by reference to external credit ratings, if available, or to historical information about counterparty's default rates.

Cash and cash equivalents are all deposited in the financial institutions with high credit ratings.

9. Available-for-sale Securities

Changes in available-for-sale securities for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Beginning balance	₩25,258	₩ -
Increase due to merger	-	20,950
Increase due to changes in scope of subsidiaries	1,880	-
Acquisition	8,779	957
Transfer	1,342	-
Disposal	(6,795)	(124)
Valuation	1,449	3,478
Impairment	(1,009)	-
Amortization	(12)	(3)
Ending balance	<u>₩30,892</u>	<u>₩25,258</u>

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Details of available-for-sale securities as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015			2014
	Acquisition cost	Fair value	Book value	Book value
Equity securities				
Daum Soft ¹	₩ 326	₩ 326	₩ 326	₩ 326
2010 KIF–Stonebridge IT Venture Fund	1,916	1,631	1,631	1,801
Mediacreate	2,084	2,549	2,549	2,084
TransLink Capital Partners II, L.P.	5,621	8,342	8,341	5,128
Collaborative Fund II, L.P.	1,854	2,204	2,204	1,174
Altos Korea opportunity Fund	1,669	2,780	2,780	816
Strong Seed Fund I	416	439	439	416
TransLink Capital Partners III, L.P.	2,470	2,824	2,824	1,460
SMCI Fund 7	1,000	998	998	-
Quber	1,192	183	183	-
ESTsoft	-	-	-	9,923
Epipolar ¹	20	20	20	-
Luno soft ¹	1,250	1,250	1,250	-
NURIDA Corporation ¹	200	200	200	-
Momo Corp ¹	100	100	100	-
Others	4,920	4,920	4,921	147
	<u>25,038</u>	<u>28,766</u>	<u>28,766</u>	<u>23,275</u>
Debt securities				
Government bonds	1,950	2,126	2,126	1,983
	<u>₩ 26,988</u>	<u>₩ 30,892</u>	<u>₩ 30,892</u>	<u>₩ 25,258</u>

¹ Securities are measured at cost as the fair value cannot be measured reliably. The Company does not have any plans to dispose of the equities in the near future. These instruments will be measured at fair value when the Company can develop a reliable estimate of the fair value.

10. Trade receivables and other receivables

Trade receivables and allowance for doubtful accounts as of December 31, 2015 and 2014, are as follows:

	2015	2014
(in millions of Korean won)		
Trade receivables	₩92,685	₩111,518
Less: allowance for doubtful accounts	(3,863)	(3,087)
Trade receivables, net	<u>₩88,822</u>	<u>₩108,431</u>

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The aging analysis of trade receivables as of December 31, 2015 and 2014, is as follows:

<i>(in millions of Korean won)</i>	2015	2014
Receivables not past due	<u>₩80,797</u>	<u>₩104,668</u>
Past due but not impaired		
Up to 3 months	-	322
3 to 6 months	<u>-</u>	<u>26</u>
	<u>-</u>	<u>348</u>
Impaired ¹		
Up to 3 months	7,671	2,454
3 to 6 months	947	1,988
Over 6 months	<u>3,270</u>	<u>2,060</u>
	<u>11,888</u>	<u>6,502</u>
	<u>₩92,685</u>	<u>₩111,518</u>

¹ The amount of the allowance provision is ₩3,863 million as of December 31, 2015 (2014: ₩3,087 million). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Changes in allowance for doubtful accounts for trade receivables for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Beginning balance	₩(3,088)	₩ (269)
Increase due to merger	-	(1,641)
Bad debt expense	(1,411)	(1,582)
Write off	169	405
Decrease due to changes in consolidation scope	<u>466</u>	<u>-</u>
Ending balance	<u>₩(3,864)</u>	<u>₩(3,087)</u>

Bad debt expense has been included in 'operating expenses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of additional collection.

The maximum exposure amount to credit risk of accounts receivable are equivalent to the carrying value of the accounts receivable book value at the end of the reporting date.

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11. Other Financial Assets

Other financial assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Other current financial assets		
Short-term loans receivable	₩ 1,161	₩ 3,016
Short-term loans to employees	48	166
Non-trade receivables	56,328	21,074
Accrued revenues	1,972	1,587
Others	110	-
	<u>59,619</u>	<u>25,843</u>
Other non-current financial assets		
Long-term loans receivable	-	3,200
Long-term loans to employees	1,722	2,401
Leasehold deposits	21,259	28,101
Held-to-maturity securities	59	-
	<u>23,040</u>	<u>33,702</u>
	<u>₩82,659</u>	<u>₩59,545</u>

The maximum exposure amounts to credit risk of other financial assets are equivalent to the carrying amount of the other financial assets book value at the end of the reporting period.

12. Trade and Other payables

Trade and other payables as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Trade and other payables		
Non-trade payables	₩89,506	₩109,126
Non-current trade and other payables		
Long-term non-trade payables	506	1,592
Leasehold deposits received	105	132
	<u>611</u>	<u>1,724</u>
	<u>₩90,117</u>	<u>₩110,850</u>

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13. Other Financial Liabilities

Other financial liabilities as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Other current financial liabilities		
Accrued expenses	₩3,673	₩5,443
Other non-current financial liabilities		
Long-term accrued expenses	<u>1,321</u>	<u>62</u>
	<u>₩4,994</u>	<u>₩5,505</u>

14. Other Assets and Liabilities

Other assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Other current assets		
Advance payments	₩20,828	₩ 2,471
Prepaid expenses	18,888	22,093
Prepaid value added tax	595	85
Corporate tax refund receivable	<u>155</u>	<u>60</u>
	<u>40,466</u>	<u>24,709</u>
Other non-current assets		
Long-term advance payments	3,948	3,206
Long-term prepaid expenses	5,544	2
Other investments	<u>100</u>	<u>100</u>
	<u>9,592</u>	<u>3,308</u>
	<u>₩50,058</u>	<u>₩28,017</u>

Other liabilities as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Other current liabilities		
Advances from customers	₩109,397	₩34,487
Deferred revenues	26,694	16,802
Withholdings	14,365	25,794
Value added tax payable	10,958	13,185
Government grants	<u>229</u>	<u>557</u>
	<u>₩161,643</u>	<u>₩90,825</u>

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15. Investments in Associates

Investments in associates as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

Name ¹	Location	Percentage of ownership	2015			2014
			Acquisition cost	Net Assets value	Book value	Book value
K Cube Venture Fund no.1 ³	Korea	-	₩ -	₩ -	₩ -	₩ 4,924
KAKAO Venture Fund ³	Korea	-	-	-	-	4,391
Daum TV	Korea	-	-	-	-	496
Flowgamez	Korea	34.00%	-	(546)	-	-
Add2paper ⁴	Korea	17.70%	314	102	342	337
DMS Network, Inc. ⁴	USA	19.70%	1,987	108	109	2,067
Nine Flava	Korea	20.00%	-	(39)	-	-
NBT ⁴	Korea	10.50%	37	1,306	1,306	-
Tapas Media, Inc.	USA	23.10%	1,839	128	1,870	1,852
Cardoc ³	Korea	-	-	-	-	258
DAUM Venture Fund	Korea	39.50%	9,947	9,393	9,393	3,887
UserStory Lab ⁴	Korea	35.70%	500	55	-	500
DAUM KAKAO PHILIPPINES CORP ²	Philippines	50.00%	5,609	5,393	5,393	-
3Point Inc. ²	Korea	20.00%	400	(31)	287	-
HASYS ²	Korea	35.00%	3,500	1,330	3,456	-
MannaCEA ²	Korea	33.20%	10,000	3,769	9,660	-
NeoBazar ²	Korea	35.00%	625	448	606	-
Silver Star Games Inc.	Korea	20.00%	94	(6)	94	-
DeNA Locations	Japan	49.00%	4,723	4,202	4,202	-
Others ⁵	Korea	7.5%~27.8%	28,417	12,110	31,986	-
			<u>₩ 67,992</u>	<u>₩ 37,722</u>	<u>₩68,704</u>	<u>₩18,712</u>

¹ Investments in associates are all unlisted securities.

² During 2015, the Company newly acquired the ownership interests.

³ As the Company obtained control over the entity in 2015, the entities are reclassified as subsidiaries from associates.

⁴ Although the Company holds less than 20% of equity shares, the Company is considered to have a significant influences as the Company holds voting power to participate in the investee's board of directors.

⁵ Small-sized entities invested into by K Cube Venture Fund no.1, Kakao Venture Fund, and others with the ownership percentage of 7.5%~27.8% and classified as associates as the Company is considered to have a significant influence.

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Changes in carrying amounts of investments in associates for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

Name	2015							Ending Balance
	Beginning balance	Changes in scope of subsidiaries	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Share in other comprehensive income of associates	Others	
K Cube Venture Fund no. ^{1,1.5}	₩ 4,924	₩ (4,951)	₩ -	₩ -	₩ 27	₩ -	₩ -	₩ -
KAKAO Venture Fund ¹	4,391	(4,130)	-	-	(261)	-	-	-
Daum TV ²	496	-	-	-	(61)	-	(435)	-
Flowgamez ³	-	-	-	-	-	-	-	-
Add2paper ^{2.5}	337	-	-	-	(54)	-	59	342
DMS Network, Inc. ^{2.4}	2,067	-	-	(1,977)	8	11	-	109
Nine Flava ³	-	-	-	-	-	-	-	-
NBT ⁵	-	-	-	-	166	1	1,139	1,306
Tapas Media, Inc. ⁵	1,852	-	-	-	(356)	118	256	1,870
Cardoc ^{1.5}	258	(642)	-	-	(281)	-	665	-
DAUM Venture Fund	3,887	-	6,000	-	(494)	-	-	9,393
UserStory Lab ⁴	500	-	-	(364)	(136)	-	-	-
DAUM KAKAO PHILIPPINES CORP.	-	-	5,609	-	(226)	10	-	5,393
Podotree Inc. ^{1.5}	-	(14,001)	14,170	-	(271)	-	102	-
3Point Inc.	-	-	400	-	(113)	-	-	287
SuperNova11 Corp. ¹	-	(11,835)	10,976	-	(1,455)	-	2,314	-
HASYS	-	-	3,500	-	(54)	10	-	3,456
MannaCEA	-	-	10,000	-	(340)	-	-	9,660
NeoBazar	-	-	625	-	(19)	-	-	606
Silver Star Games Inc.	-	94	-	-	-	-	-	94
DeNA Locations	-	4,723	-	-	(791)	270	-	4,202
Others ^{1.5}	-	13,948	14,469	(1,939)	238	8	5,262	31,986
	₩ 18,712	₩ (16,794)	₩ 65,749	₩ (4,280)	₩ (4,473)	₩ 428	₩ 99,362	₩ 68,704

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- 1 As the Company obtained control over the entity in 2015, the entity was reclassified as a subsidiary from the investments in associates.
- 2 As the Company lost its significant influence over the entity in 2015, it was reclassified as available-for-sale financial securities.
- 3 As of December 31, 2015, the equity method accounting is discontinued.
- 4 During 2015, the Company recognized impairment loss for investments in DMS Network, Inc. and UserStory Lab as their recoverable amount is considered less than their book value as of December 31, 2015, due to sales decrease and other reasons.
- 5 Others include gains (losses) on disposal from changes in percentage of ownership with maintaining significant influence.

(in millions of Korean won)

2014

Name	Beginning balance	Increase due to merger	Changes in scope of subsidiaries	Acquisition	Disposal and impairment	Gain (loss) on valuation of equity-method investments	Others	Ending Balance
K Cube Venture Fund no.1	₩ 4,762	₩ -	₩ -	₩ -	₩ -	₩ 158	₩ 4	₩ 4,924
KAKAO Venture Fund ¹	2,388	-	-	2,500	-	(497)	-	4,391
KAKAO JAPAN Corp. ²	3,315	-	(1,279)	-	-	(1,903)	(133)	-
Ultra Caption Corp. ³	19	-	-	-	-	(19)	-	-
Daum TV ⁴	-	588	-	-	-	(92)	-	496
Flowgamez ⁴	-	-	-	-	-	-	-	-
Playplus ⁴	-	-	-	-	-	-	-	-
Add2paper ⁴	-	313	-	-	-	23	-	337
DMS Network, Inc. ⁴	-	1,987	-	-	-	(11)	91	2,067
Nine Flava ⁴	-	-	-	-	-	-	-	-
NBT ⁴	-	37	-	-	-	(37)	-	-
Tapas Media, Inc. ⁴	-	1,839	-	-	-	(71)	84	1,852
Cardoc ⁴	-	236	-	-	-	(102)	124	258
DAUM Venture Fund ⁵	-	1,947	-	2,000	-	(60)	-	3,887
UserStory Lab ⁶	-	-	-	500	-	-	-	500
	₩ 10,484	₩ 6,947	₩ (1,279)	₩ 5,000	₩ -	₩ (2,611)	₩ 170	₩18,712

¹ In 2014, the Company additionally acquired 25 shares.

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² As the Company acquired 16,412 shares (50% ownership), the percentage of ownership became 100% in 2014, and the entity was reclassified as a subsidiary.

³ Additional 3,627 shares acquired (64.8% ownership) resulting in the percentage of ownership of 79.0% and the entity was reclassified as a subsidiary in 2014.

⁴ Newly acquired as a result of merger in 2014.

⁵ Newly acquired as a result of merger and additional 20 shares were acquired after the merger in 2014.

⁶ In 2014, the Company acquired 16,816 shares (35.71% ownership).

A summary of financial information on the associates for the years ended December 31, 2015 and 2014, is as follows:

(in millions of Korean won)

	2015						
	Assets	Liabilities	Equity	Revenue	Profit(loss)	Comprehensive	
	₩	₩	₩	₩	₩	₩	₩
Flowgamez	107	1,859	(1,752)	41	(231)	(231)	(231)
Add2paper	629	49	580	1,100	(204)	(204)	(204)
DMS Network, Inc.	892	307	585	200	38	38	38
Nine Flava	9	206	(197)	3	(2)	(2)	(2)
NBT	27,930	16,155	11,775	58,163	297	297	297
Tapas Media, Inc.	570	15	556	227	(1,478)	(1,478)	(1,435)
DAUM Venture Fund	23,775	11	23,763	463	(1,250)	(1,250)	(1,250)
UserStory Lab	640	557	83	418	(380)	(380)	(380)
DAUM KAKAO PHILIPPINES CORP.	11,273	487	10,786	(14)	(454)	(454)	(433)
3Point Inc.	134	291	(157)	100	(563)	(563)	(563)
DeNA Locations	8,826	251	8,575	19	(1,615)	(1,615)	(1,063)
HASYS	4,165	366	3,799	1,058	(47)	(47)	(19)
MannaCEA	11,930	565	11,366	62	(867)	(867)	(867)
NeoBazar	1,305	25	1,280	21	(55)	(55)	(55)
Silver Star Games Inc.	-	29	(28)	-	(29)	(29)	(29)
Others	104,487	14,467	90,017	43,034	(8,544)	(8,544)	(8,544)
	₩196,672	₩35,640	₩161,031	₩104,895	₩(15,384)	₩(15,384)	₩(14,740)

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	2014					
	Assets	Liabilities	Equity	Revenue	Profit(loss)	Comprehensive income(loss)
K Cube Venture Fund no.1	₩11,460	₩ 75	₩11,385	₩ 1,029	₩ 366	₩ 333
KAKAO Venture Fund	13,369	197	13,172	535	(1,493)	(1,493)
Daum TV	1,331	83	1,248	1,625	(641)	(641)
Flowgamez	354	1,875	(1,521)	88	(23)	(23)
Add2paper	599	91	508	340	118	118
Playplus	250	450	(200)	15	(74)	(74)
DMS Network, Inc.	815	304	511	114	(57)	(38)
Nine Flava	54	244	(190)	15	(1)	(1)
NBT	12,446	14,571	(2,125)	11,789	(644)	(644)
Tapas Media, Inc.	872	14	858	19	(280)	(244)
Cardoc	501	145	356	1	(388)	(388)
DAUM Venture Fund	9,837	3	9,834	11	(152)	(152)
UserStory Lab	863	328	535	-	-	-
	<u>₩52,751</u>	<u>₩18,380</u>	<u>₩34,371</u>	<u>₩15,581</u>	<u>₩(3,269)</u>	<u>₩(3,247)</u>

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16. Property and Equipment

Changes in property and equipment for the years ended December 31, 2015 and 2014, are as follows:

	2015						Total
	Lands	Buildings	Structures	Machinery and equipment	Vehicles	Furnitures	
Beginning balance	₩38,655	₩47,956	₩ 9	₩ 295	₩ 53,517	₩ 17,006	₩196,894
Acquisition and capital expenditures	-	-	-	-	182	(34)	70,594
Changes in scope of subsidiaries	1,255	670	105	-	(241)	(1,130)	2,167
Disposals	-	-	-	-	(38,945)	(8,648)	(49,099)
Depreciation	-	(1,318)	(17)	-	-	123	-
Transfer	-	-	(123)	-	-	-	-
Currency translation effects	-	-	-	-	-	-	23
Ending balance	39,910	47,317	260	260	106,950	24,302	219,052
December 31, 2015	39,910	49,015	302	302	168,405	39,051	297,233
Acquisition cost	-	(1,698)	(42)	(42)	(61,453)	(14,698)	(78,128)
Accumulated depreciation	-	-	-	-	(2)	(51)	(53)
Government grants	-	-	-	-	-	-	-
Net book value	₩39,910	₩47,317	₩ 260	₩ 260	₩ 106,950	₩ 24,302	₩219,052

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	2014						
	Lands	Buildings	Structures	Machinery and equipment	Vehicles	Furnitures	Total
₩	- ₩	- ₩	- ₩	- ₩	₩	₩	₩
Beginning balance	-	-	-	16,153	-	4,163	20,316
Acquisition and capital expenditures	-	-	-	21,015	18	4,041	25,074
Changes in scope of subsidiaries	-	-	38	-	-	79	117
Increase due to merger	38,655	48,284	261	69,114	575	11,733	168,622
Disposals	-	-	-	(28)	-	(61)	(89)
Depreciation	-	(328)	(4)	(13,810)	(49)	(2,958)	(17,149)
Currency translation effects	-	-	-	(5)	-	8	3
Ending balance	38,655	47,956	295	92,439	544	17,005	196,894
December 31, 2014							
Acquisition cost	38,655	48,284	306	115,180	750	24,919	228,094
Accumulated depreciation	-	(328)	(11)	(22,730)	(206)	(7,911)	(31,186)
Government grants	-	-	-	(12)	-	(2)	(14)
Net book value	₩38,655	₩ 47,956	₩ 295	₩ 92,438	₩ 544	₩ 17,006	₩ 196,894

As of December 31, 2015, a certain portion of land among property and equipment is pledged as collateral for contract fulfillment and borrowings (Notes 18 and 35).

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17. Intangible Assets

Changes in intangible assets for the years ended December 31, 2015 and 2014, are as follows:

	2015					
	Goodwill ¹	Development costs ²	Industrial rights	Membership rights / Brand	Other intangible assets ²	Total
Beginning balance	₩1,419,513	₩ 18,405	₩ 32,879	₩ 96,917	₩121,260	₩1,688,974
Acquisition	-	-	1,628	-	7,167	8,795
Transfer	-	-	71	-	(71)	-
Changes in scope of subsidiaries	146,297	19,248	3,234	30	26,794	195,603
Disposal	-	-	(964)	(592)	(1,125)	(2,681)
Amortization	-	(4,282)	(3,839)	-	(18,172)	(26,293)
Impairment	(2,497)	(5,305)	-	-	(1,157)	(8,959)
Currency translation effects	(161)	(33)	(153)	-	512	164
Ending balance	1,563,152	28,033	32,856	96,355	135,208	1,855,604
December 31, 2015						
Acquisition cost	1,568,069	39,044	37,804	96,355	158,865	1,900,137
Accumulated amortization	-	(4,954)	(4,740)	-	(22,491)	(32,185)
Government grants	-	-	(2)	-	(9)	(11)
Accumulated impairment	(4,917)	(6,057)	(206)	-	(1,157)	(12,337)
Net book value	₩1,563,152	₩ 28,033	₩ 32,856	₩ 96,355	₩135,208	₩1,855,604

¹ The impairment loss on goodwill is recognized for Kakao Lab Corp. and certain other subsidiaries as the recoverable amount decreased and became less than the carrying amount due to sales decrease and other reasons.

² The impairment loss on development costs and other intangible assets is recognized from Buzzpia and certain other subsidiaries. The Company estimates the recoverable amount as of December 31, 2015, and recognizes the difference between the recoverable amount and its book value as impairment loss considering limited future economic benefit from the projects being developed.

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	2014					Total
	Goodwill ¹	Development costs	Industrial rights	Membership rights / Brand	Other intangible assets	
Beginning balance	₩ 487	₩ -	₩ 27	₩ -	₩ 856	₩ 1,370
Acquisition	-	679	115	-	9,383	10,177
Changes in scope of subsidiaries	7,066	464	336	-	1,101	8,967
Increase due to merger	1,414,380	18,613	33,503	96,917	114,194	1,677,607
Transfer	-	73	-	-	53	126
Amortization	-	(672)	(907)	-	(4,327)	(5,906)
Impairment	(2,420)	(752)	(206)	-	-	(3,378)
Currency translation effects	-	-	11	-	-	11
Ending balance	₩ 1,419,513	₩ 18,405	₩ 32,879	₩ 96,917	₩ 121,260	₩ 1,688,974
December 31, 2014						
Acquisition cost	1,434,532	19,829	33,984	96,917	125,602	1,710,864
Accumulated amortization	-	(672)	(899)	-	(4,328)	(5,899)
Government grants	-	-	-	-	(14)	(14)
Accumulated impairment	(15,019)	(752)	(206)	-	-	(15,977)
Net book value	₩ 1,419,513	₩ 18,405	₩ 32,879	₩ 96,917	₩ 121,260	₩ 1,688,974

¹ The impairment loss on goodwill is recognized from Ultra Caption Corporation. As of December 31, 2014, the carrying amount of goodwill was reduced to its recoverable amount through recognition of an impairment loss considering limited future economic benefit from the projects being developed by Ultra Caption Corporation.

The following is a summary of goodwill allocation for CGUs operated by management as of December 31, 2015:

(in millions of Korean won)	Amount
Internet portal service and mobile service	₩1,504,902
Other mobile service	25,748
Game business	15,714
Others	16,788
	₩1,563,152

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The Company annually tests impairment of its goodwill. Impairment test of CGU of internet portal service and mobile service suggests that the carrying value of this CGU does not exceed the recoverable amount. The recoverable amounts of CGU or CGUs have been determined based on value-in-use calculations. These calculations use after-tax cash flow projections based on financial budgets approved by management. Cash flows are estimated using the estimated growth rates stated below. The growth rate during this period and the permanent growth rate surpassing the period does not exceed long-term average growth rate of the business. The key assumptions used for value-in-use calculations are as follows:

	Key assumptions
Operating income rate	25.2%~42.2%
Revenue growth rate	13.2%~25.9%
Perpetual growth rate	2.5%
After-tax discount rate	10.7%

As a result of the impairment test of CGUs of other mobile service, game business and others, the Company estimated the recoverable amount and recognized ₩2,497 million of impairment loss.

18. Borrowings

Short-term borrowings as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

Classification	Lender	Interest rate as of December 31, 2015 (%)	2015	2014
Bank loans for small and medium enterprises	Industrial Bank of Korea	4.36	₩ -	₩50
Bank loans for small and medium enterprises	Industrial Bank of Korea	2.87	100	-
Bank loans for working capital	Industrial Bank of Korea	4.3	500	-
Loans for working capital	HONGKONG QIANQI NETWORK TECHNOLOGY CO., LIMITED	-	529	-
Bank loans for equipment	Industrial Bank of Korea	2.99	1,430	-
Bank loans for small and medium enterprises	Industrial Bank of Korea	4.62	500	-
Bank loans for small and medium enterprises	Industrial Bank of Korea	5.62	200	-
Bank loans for technology creation enterprises	Kookmin Bank	2.62	500	-
Redeemable convertible preferred shares ¹		-	18,296	-
			<u>₩22,055</u>	<u>₩50</u>

¹ The redeemable convertible preferred shares issued by two subsidiaries and the redeemable right is exercisable within one year from December 31, 2015.

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Details of redeemable convertible preferred stocks issued by two subsidiaries as of December 31, 2015, are as follows:

(in millions of Korean won)

	Issuer	
	NZIN Corp	Podotree Inc.
Value at issue	₩13,002	₩10,416
Dividend rate for preferred shares	1% of par value	0.1% of par value
Guaranteed yield upon redeem	8%	9%~11%
Conversion period	For 10 years from issuance date	For 10 years from issuance date
Conversion rate	1 common share per 1 preferred share	1 common share per 1 preferred share
Redemption period	Redeemable from one year after issuance date	Redeemable from two years after issuance date

These preferred shares are mandatorily redeemable at their par value plus its annual premium minus dividends paid before the redemption. In relation to these preferred shares, interest expense is recorded as finance expenses in the statement of comprehensive income using effective interest rate method.

These redeemable convertible preferred shares are classified as liabilities. The early redemption right and the conversion right are recorded as derivative financial liabilities in the case that they are considered as an embedded derivative which meets certain criteria accounting for separately from the host contract.

Long-term borrowings and corporate bonds as of December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

Classification	Lender	Maturity date	Interest rate as of December 31, 2015 (%)		
				2015	2014
Borrowing for establishing childcare facilities in the workplace	Woori Bank	September 20, 2023	2.00	₩ 250	₩250
Bank loans for small and medium enterprises	Small &medium business corporation	May 6, 2017	1.42	142	-
				<u>392</u>	<u>250</u>
Corporate bonds (7 th non-guarantee public bonds)	Public offering	December 4, 2018	2.42	199,383	-
				<u>199,775</u>	<u>250</u>
Less: Current portion				<u>(100)</u>	<u>-</u>
				<u>₩199,675</u>	<u>₩250</u>

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Property and equipment of the Company are pledged as collateral for the borrowings above, and the Company has been provided the guarantee by the CEO of subsidiaries and two financial institutions including KIBO technology fund in relation to the borrowings above(Notes 16 and 35).

19. Net Defined Benefit Liabilities

Net defined benefit liabilities recognized in the statement of financial position as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Present value of funded defined benefit obligation	₩ 42,595	₩ 25,131
Present value of unfunded defined benefit obligation	3,500	1,555
Subtotal	46,095	26,686
Fair value of plan assets	(37,784)	(23,324)
Liability in the statement of financial position	<u>₩ 8,311</u>	<u>₩ 3,362</u>

Changes in the defined benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Beginning balance	₩26,686	₩ -
Increase due to merger	-	22,077
Increase due to change in scope of subsidiaries	1,780	-
Current service cost	15,740	3,764
Interest cost	808	182
Remeasurements	3,704	937
Benefits paid	(2,621)	(274)
Transfer	(2)	-
Ending balance	<u>₩46,095</u>	<u>₩26,686</u>

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Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 23,325	₩ -
Increase due to merger	-	8,059
Increase due to change in scope of subsidiaries	48	-
Interest income	653	71
Contribution	16,266	15,602
Payments from plans:	(2,011)	(381)
Remeasurements:		
Actuarial loss	(40)	(26)
Transfer	(457)	-
Ending balance	<u>₩ 37,784</u>	<u>₩ 23,325</u>

The amounts recognized on the statements of comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	<u>2015</u>	<u>2014</u>
Current service cost	₩ 15,740	₩ 3,764
Net interest cost	155	111
	<u>₩ 15,895</u>	<u>₩ 3,875</u>

Total service cost from defined benefit plan amounting to ₩15,895 million and ₩3,875 million is included in operating expenses for the years ended December 31, 2015 and 2014, respectively. In addition, total service cost from defined contribution plan was ₩2,457 million and ₩2,387 million for the years ended December 31, 2015 and 2014, respectively.

Principal assumptions on actuarial valuation as of December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	2.3%~3.4%	3.2%
Salary growth rate	5.0%~7.0%	5.0%~7.0%

The sensitivity analysis of the defined benefit obligations as of December 31, 2015 and 2014, to changes in the weighted principal assumptions is:

	<u>Effect on defined benefit obligations</u>		
	<u>Changes in principal assumption</u>	<u>Increase in principal assumption</u>	<u>Decrease in principal assumption</u>
Discount rate	1%	8% decrease	9% increase
Salary growth rate	1%	8% increase	7% decrease

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The Company is exposed to the most significant risk through changes in bond yields, which was used as a discount rate. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position.

Plan assets as of December 31, 2015 and 2014, consist of the following:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Equity linked bond	₩ 7,736	₩ 9,957
Time deposits	16,093	6,085
Financial instruments with fixed rate	<u>13,955</u>	<u>7,282</u>
	<u>₩37,784</u>	<u>₩23,324</u>

The Company estimates the expected contributions to plan assets to be ₩10,711 million for the year ending December 31, 2016.

20. Other Long-term Employee Benefits Liabilities

Other long-term employee benefits liabilities included in other non-current liabilities for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Present value of other long-term employee benefits obligation	₩24,968	₩20,027
Fair value of plan assets	-	-
Present value of other long-term employee benefits liabilities	<u>₩24,968</u>	<u>₩20,027</u>

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Changes in other long-term employee benefits liabilities for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩20,027	₩ -
Increase due to merger	-	19,328
Increase due to change in scope of subsidiaries	24	-
Current service cost	6,450	884
Interest cost	582	113
Benefit paid	(2,429)	(472)
Remeasurements of the benefit liabilities	314	174
Ending balance	<u>₩24,968</u>	<u>₩20,027</u>

Costs included in statements of income for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Current service cost	₩ 6,450	₩ 884
Interest cost	582	113
Remeasurements of the benefit liabilities	314	174
Total included in staff cost	<u>₩ 7,346</u>	<u>₩ 1,171</u>

Principal assumptions on actuarial valuation in relation to other long-term employee benefits liabilities for the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	2.3%~2.6%	3.2%
Salary growth rate	7%	5.0~7.0%

21. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2015 and 2014, consists of:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Current tax:		
Current tax on profits for the year	₩37,907	₩19,405
Adjustments due to changes in estimates related to prior years	6,143	17
Current income tax directly recognized in equity	<u>(3,247)</u>	<u>486</u>
	40,803	19,908
Deferred tax:		
Changes in temporary differences	<u>(10,025)</u>	<u>(900)</u>
Income tax expense	<u>₩30,778</u>	<u>₩19,008</u>

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Reconciliation between actual income tax expense and amount computed by applying the statutory tax rate to profit before income tax for the years ended December 31, 2015 and 2014, follows:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Profit before income tax	₩109,543	₩168,829
Income tax expense computed at statutory tax rate	₩ 26,047	₩ 40,395
Adjustments:		
Non-taxable income	(15)	(1)
Non-deductible expenses	664	881
Changes in valuation allowance of deferred income tax asset	4,699	(2,652)
Adjustments due to changes in estimates related to prior years	6,143	17
Tax credits	<u>(6,760)</u>	<u>(19,632)</u>
Income tax expense	<u>₩ 30,778</u>	<u>₩ 19,008</u>

Income tax effects related to components of other comprehensive income (expenses) for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>2015</u>			<u>2014</u>		
	<u>Before tax</u>	<u>Tax effect</u>	<u>After tax</u>	<u>Before Tax</u>	<u>Tax effect</u>	<u>After tax</u>
Other comprehensive income(expense):						
Gain on valuation of available-for-sale securities	₩ 1,449	₩(351)	₩ 1,098	₩3,479	₩(842)	₩2,637
Remeasurements of the net defined benefit liabilities	(4,894)	1,182	(3,712)	(963)	208	(755)
	<u>₩(3,445)</u>	<u>₩ 831</u>	<u>₩(2,614)</u>	<u>₩2,516</u>	<u>₩(634)</u>	<u>₩1,882</u>

Income tax credited (charged) directly to equity for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>2015</u>			<u>2014</u>		
	<u>Before tax</u>	<u>Tax effect</u>	<u>After Tax</u>	<u>Before tax</u>	<u>Tax effect</u>	<u>After tax</u>
Capital surplus and Other components of equity:						
Loss on disposal of treasury stock	₩(5,831)	₩ 1,411	₩(4,420)	₩(2,007)	₩486	₩(1,521)
Shares donated by shareholders	19,250	(4,658)	14,592	-	-	-
	<u>₩13,419</u>	<u>₩(3,247)</u>	<u>₩10,172</u>	<u>₩(2,007)</u>	<u>₩486</u>	<u>₩(1,521)</u>

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Deferred tax assets (liabilities) recognized in the statements of financial position as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	₩ 26,428	₩ 25,029
Deferred tax assets to be recovered within 12 months	<u>11,367</u>	<u>4,895</u>
	<u>37,795</u>	<u>29,924</u>
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	(84,757)	(74,158)
Deferred tax liabilities to be settled within 12 months	<u>(341)</u>	<u>(2,964)</u>
	<u>(85,098)</u>	<u>(77,122)</u>
Deferred tax assets (liabilities), net	<u>₩(47,303)</u>	<u>₩(47,198)</u>

The gross movement in the deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Beginning balance	₩(47,198)	₩ 3,315
Effect due to merger	-	(50,363)
Changes in scope of consolidation	(10,961)	(416)
Deferred income tax charged to income or loss	10,025	900
Deferred income tax charged to other comprehensive income	<u>831</u>	<u>(634)</u>
Ending balance	<u>₩(47,303)</u>	<u>₩(47,198)</u>

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Changes in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

(in millions of Korean won)

	2015				
	Beginning balance	Changes in scope of subsidiaries	Income statement	Other comprehensive income	Ending balance
	₩	₩	₩	₩	₩
Deferred tax liabilities					
Accrued revenue	(351)	-	-	-	(341)
Property and equipment	(5,824)	-	-	-	(5,824)
Intangible assets	(56,548)	(8,089)	4,016	-	(60,621)
Non-trade receivables	(4,408)	-	-	-	(4,408)
Available-for-sale securities	(1,523)	-	332	(351)	(1,542)
Plan assets	(5,468)	-	(3,431)	-	(8,899)
Treasury stock	(2,674)	-	2,589	-	(85)
Non-refundable tax	-	-	(1,518)	-	(1,518)
Others	(326)	-	(1,534)	-	(1,860)
	(77,122)	(8,088)	463	(351)	(85,098)
Deferred tax assets					
Property and equipment	1,080	-	(54)	-	1,026
Advances from customers	1,956	-	(1,063)	-	893
Intangible assets	1,010	-	(619)	-	391
Allowance for doubtful accounts	8,474	(71)	150	-	8,553
Investments in associates	-	-	461	-	461
Accounts payable	858	(370)	(400)	-	88
Provisions	514	-	438	-	952
Government grant	141	-	(84)	-	57
Defined benefit liability	5,561	-	3,349	1,182	10,091
Other long-term employee benefits liability	5,581	-	668	-	6,249
Available-for-sale securities	193	(5)	2,413	-	2,601
Derivative instruments	1,519	-	314	-	1,833
Others	3,037	(2,427)	3,989	-	4,600
	29,924	(2,873)	9,562	1,182	37,795
Deferred tax assets (liabilities), net	₩ (47,198)	₩ (10,961)	₩ 10,025	₩ 831	₩ (47,303)

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	2014					
	Beginning balance	Increase due to merger	Changes in scope of subsidiaries	Income statement	Other comprehensive income	Ending balance
Deferred tax liabilities	₩ (217)	₩ (447)	₩ -	₩ 313	₩ -	₩ (351)
Accrued revenue	-	(5,824)	-	-	-	(5,824)
Property and equipment	-	(57,024)	(415)	892	-	(56,547)
Intangible assets	-	(4,408)	-	-	-	(4,408)
Non-trade receivables	-	(567)	-	(114)	(842)	(1,523)
Available-for-sale securities	-	(1,897)	-	(3,591)	-	(5,488)
Plan assets	-	(5,430)	-	2,756	-	(2,674)
Treasury stock	-	(314)	-	7	-	(306)
Others	(217)	(75,911)	(415)	263	(842)	(77,122)
Deferred tax assets	6	1,169	-	(141)	-	1,034
Property and equipment	836	264	-	856	-	1,956
Advances from customers	-	1,039	-	(29)	-	1,010
Intangible assets	-	8,272	-	202	-	8,474
Allowance for doubtful accounts	1,840	1,464	-	(2,446)	-	858
Accounts payable	43	81	-	389	-	513
Provisions	-	205	-	(64)	-	141
Government grant	-	4,774	-	579	208	5,561
Defined benefit liability	-	-	-	-	-	-
Other long-term employee benefits liability	807	3,439	-	1,335	-	5,581
Available-for-sale securities	-	78	-	115	-	193
Derivative instruments	-	1,613	-	(94)	-	1,519
Others	-	3,150	-	(65)	-	3,084
Deferred tax assets (liabilities), net	₩ 3,532	₩ 25,548	₩ -	₩ 637	₩ 208	₩ 29,924
	₩ 3,315	₩ (50,363)	₩ (415)	₩ 900	₩ (634)	₩ (47,198)

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The Company did not recognize deferred income tax asset of ₩27,574 million and ₩22,875 million as of December 31, 2015 and 2014, respectively, related to the investments in subsidiaries and associates.

As of December 31, 2015, unrecognized deductible temporary differences as deferred assets arising from subsidiaries' net loss carryforwards amount to ₩4,867 million.

22. Provisions

Changes in provisions for the years ended December 31, 2015 and 2014, are as follows:

(in millions of Korean won)

	2015			
	Current	Non-current		Total
	Provision for mileage	Provision for business losses¹	Provision for restoration	
Beginning balance	₩ 1,364	₩ 336	₩ 1,465	
Increase due to merger	-	-	-	-
Addition	1,920	-	2,005	3,925
Utilization	(2,135)	-	(404)	(2,539)
Ending balance	<u>₩ 1,149</u>	<u>₩ 336</u>	<u>₩ 3,066</u>	<u>₩ 4,551</u>

(in millions of Korean won)

	2014			
	Current	Non-current		Total
	Provision for mileage	Provision for business losses¹	Provision for restoration	
Beginning balance	₩ -	₩ -	₩ 665	
Increase due to merger	294	336	204	834
Addition	1,840	-	596	2,436
Utilization	(770)	-	-	(770)
Ending balance	<u>₩ 1,364</u>	<u>₩ 336</u>	<u>₩ 1,465</u>	<u>₩ 3,165</u>

¹ Related to the stock disposal agreement with Ergo Daum Direct General Insurance Co., Ltd. (Note 35).

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23. Derivative Financial Instruments

The carrying amounts of derivative financial assets as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	<u>2015</u>	<u>2014</u>
Stock warrants ¹	₩ -	₩1,299
Redemption right ²	217	217
Derivatives Linked Securities	5,024	-
Total	<u>₩5,241</u>	<u>₩1,516</u>

¹ Rights to acquire a registered common stock of Neowiz Games Corporation for ₩33,016 per share, exercisable between March 11, 2012 and March 10, 2016.

² Redemption right granted to NBT preferred stock owned by the Company with redemption exercise period from June 28, 2015 to June 28, 2023. The guaranteed yield on the redemption premium is 8% per annum.

Derivative financial liabilities amounting to ₩8,504 million as of December 31, 2015, are related to the conversion and redemption rights associated with the redeemable convertible preferred shares issued by the subsidiaries (Note 18).

24. Capital Stock and Additional Paid-in Capital

As of December 31, 2015, the Parent Company's total number of authorized shares is 100 million and the total number of issued stocks and outstanding common stocks are 60,196,088 and 60,096,088, respectively.

The Parent Company may grant stock options to its employees and directors of the Parent Company and its affiliates who contribute or have capabilities to contribute to the establishment, management, overseas business and technical innovation of the Company, with the resolution of special shareholders meeting up to 15% of total number of issued stocks. As of December 31, 2015, the number of outstanding stock options is 1,000,412 shares (Note 25).

The Parent Company is authorized to issue convertible bonds and bonds with warrants into registered common stocks for up to the total par value of ₩200 billion to investors, other than current shareholders, with the resolution of the board of directors. As of December 31, 2015, there are no convertible bonds or bonds with warrants issued and outstanding.

The Parent Company may issue various classes of shares which are different in respect of their particulars as to the dividend, voting rights, conversion and redemption rights up to 25% of the total number of shares issued. The Parent Company has only issued common shares and no other classes having the above conditions as of December 31, 2015.

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Changes in capital stock and additional paid-in capital during the year ended December 31, 2015 are as follows:

(in millions of Korean won, except number of shares)

	Description	Number of common shares ¹	Common stocks	Additional paid-in capital	Total
At January 1, 2015	Beginning balance	₩58,242,204	₩29,121	₩2,258,965	₩2,288,086
At February 3, 2015	Exercise of stock options	832,027	416	3,302	3,718
At March 3, 2015	Exercise of stock options	149,823	75	608	683
At March 25, 2015	Exercise of stock options	204,435	102	1,808	1,910
At May 4, 2015	Exercise of stock options	294,671	147	4,545	4,692
At June 1, 2015	Exercise of stock options	262,395	131	2,779	2,910
At June 29, 2015	Exercise of stock options	22,000	11	316	327
At July 28, 2015	Exercise of stock options	35,329	18	351	369
At August 26, 2015	Exercise of stock options	60,872	30	955	985
At September 23, 2015	Exercise of stock options	10,900	6	25	31
At November 2, 2015	Exercise of stock options	15,500	8	208	216
At November 26, 2015	Exercise of stock options	65,532	33	660	693
At December 21, 2015	Exercise of stock options	400	-	16	16
At December 31, 2015	Ending balance	₩60,196,088	₩30,098	₩2,274,538	₩2,304,636

Prior to 2014, the Parent Company retired its treasury stock of 100,000 shares appropriating retained earnings. Therefore, the total par value of capital stocks issued differs from the total par value of capital stocks outstanding.

(In millions of Korean won, except number of shares and par value)

Outstanding stocks				
Number of shares	Par value	Total	Capital Stock	Difference
60,096,088	₩ 500	₩ 30,048	₩ 30,098	₩ 50

25. Stock Options

Details of share-based payments as of December 31, 2015, are as follows:

(a) Equity-settled share-based payments

- Type of stocks issued through exercise of stock option: registered common stock
- Grant method: Issuance of new common stock

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- Vesting period:

3rd - 6th tranches: The requisite service period is two years, exercisable from two to seven years after grant date.

8th, 10th, 12th, 14th, 16th tranches: The requisite service period is two years, exercisable from two to seven years after grant date.

9th, 11th, 13th, 15th, 17th tranches: The requisite service period is two of three years, exercisable from two of three years to seven of eight years after grant date.

(b) Cash-settled share-based payments

- Vesting period:

1st - 2nd tranches: The requisite service period is two years, exercisable from two years to five years after grant date.

Details of equity-settled stock options outstanding as of December 31, 2015, are as follows:

Tranche	Grant date	Exercise price (in Korean won)	Number of shares				
			Outstanding as of January 1, 2015	Forfeited	Exercised	Outstanding as of December 31, 2015	Exercisable as of December 31, 2015
3 rd	May 20, 2010	500	840,519	-	(604,878)	235,641	235,641
4 th	March 25, 2011	1,607	407,765	-	(351,322)	56,443	56,443
5 th	June 10, 2011	1,607	198,773	-	(129,631)	69,142	69,142
6 th	November 11, 2011	6,428	411,095	-	(217,327)	193,768	193,768
8 th	January 20, 2012	7,714	9,555	-	(7,000)	2,555	2,555
9 th	January 20, 2012	7,714	178,656	-	(143,656)	35,000	35,000
10 th	March 30, 2012	10,285	14,332	-	(200)	14,132	14,132
11 th	March 30, 2012	10,285	20,332	-	(10,332)	10,000	10,000
12 th	August 31, 2012	12,857	296,981	-	(202,881)	94,100	94,100
13 th	August 31, 2012	12,857	61,879	-	(24,224)	37,655	37,655
14 th	December 14, 2012	12,857	111,889	-	(87,902)	23,987	23,987
15 th	December 14, 2012	12,857	15,212	-	(15,212)	-	-
16 th	March 28, 2013	32,143	231,760	-	(159,319)	72,441	72,441
17 th	March 28, 2013	32,143	155,548	-	-	155,548	-
			<u>2,954,296</u>	<u>-</u>	<u>(1,953,884)</u>	<u>1,000,412</u>	<u>844,864</u>

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In addition to the aforementioned stock options, the Company granted equity-settled stock options in relation to the shares of its subsidiaries such as Podotree Inc., Daum Games, Kids Note Co., Ltd., K Ventrone Group, Sellit Inc., Tangram Factory, NZIN Corp., and Path Mobile Inc.pte.Ltd.

Compensation costs of equity-settled stock options are calculated by applying a fair value approach using Black-Scholes model. The related assumptions are as follows:

Tranche	Fair Value of option at grant date (in Korean won)	Stock price at grant date (in Korean won)	Expected volatility ¹	Expected dividends	Expected term	Risk free Interest rate
3rd	207	₩ 600	59%	0%	2 years	3.43%
4th	625	2,500	40%	0%	2 years	3.61%
5th	602	2,500	38%	0%	2 years	3.61%
6th	2,527	10,000	41%	0%	2 years	3.39%
8th	2,968	12,000	40%	0%	2 years	3.39%
9th	3,981	12,000	44%	0%	3 years	3.40%
10th	3,984	16,000	40%	0%	2 years	3.52%
11th	5,055	16,000	41%	0%	3 years	3.55%
12th	4,991	20,000	41%	0%	2 years	2.77%
13th	6,090	20,000	40%	0%	3 years	2.76%
14th	5,188	20,000	43%	0%	2 years	2.86%
15th	6,059	20,000	40%	0%	3 years	2.83%
16th	12,719	50,000	42%	0%	2 years	2.46%
17th	14,770	50,000	40%	0%	3 years	2.44%

¹ The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of corporations in the similar line of industry over expected maturity period.

Details of cash-settled stock options outstanding as of December 31, 2015, are as follows:

Tranche	Grant date	Exercise price (in Korean won)	Number of shares			
			Outstanding as of January 1, 2015	Exercised	Outstanding as of December 31, 2015	Exercisable as of December 31, 2015
1 st	July 31, 2013	₩32,143	36,550	19,137	17,413	17,413
2 nd	October 31, 2013	50,144	7,777	-	7,777	7,777
			<u>44,327</u>	<u>19,137</u>	<u>25,190</u>	<u>25,190</u>

The fair value of cash-settled stock options determined using Black-Scholes option pricing model and the assumptions used in the option pricing model. As of December 31, 2015, the cash-settled stock options are vested and exercisable.

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In addition to the aforementioned stock options, the Company granted cash-settled stock options on shares of Loenall Corporation, one of its subsidiaries.

Share-based payments recognized as expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015¹	2014¹
Equity-settled share-based payment	₩1,197	₩2,948
Cash-settled share-based payment	<u>754</u>	<u>2,618</u>
	<u>₩1,951</u>	<u>₩5,566</u>

¹ Compensation costs in relation to the shares of subsidiaries amounting to ₩935 million and ₩72 million are recognized in 2015 and 2014, respectively.

26. Other Components of Equity

Other components of equity as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Treasury shares	₩ (798)	₩(25,202)
Losses on disposal of treasury shares	(5,941)	(1,521)
Stock options	3,137	5,885
Other capital adjustments	<u>(5,430)</u>	<u>(5,430)</u>
	<u>₩(9,032)</u>	<u>₩(26,268)</u>

As of December 31, 2015, the Parent Company held 5,188 shares of treasury stocks in the amount of ₩798 million for the purpose of stabilizing the share price and enhancing shareholder value. The Parent Company acquired shares of Loenall Inc. in 2015 by exchanging treasury shares and recognized losses on disposal of treasury shares amounting to ₩5,831 million (net of tax: ₩4,420 million), which is the difference between the fair value of treasury shares ₩18,574 million at acquisition date and the acquisition cost of ₩24,405 million.

27. Accumulated Other Comprehensive Income

Accumulated other comprehensive income as of December 31, 2015 and 2014, consists of:

<i>(in millions of Korean won)</i>	2015	2014
Gain on valuation of available-for-sale securities, net of tax	₩ 3,735	₩2,636
Translation adjustments, net of tax	948	52
Shares in other comprehensive income of associates	603	181
Remeasurements of defined benefit obligation, net of tax	<u>(4,457)</u>	<u>(755)</u>
	<u>₩ 829</u>	<u>₩2,114</u>

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Changes in accumulated other comprehensive income for the year ended December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	Beginning balance	Increase (Decrease)	Ending balance
Gain on valuation of available-for-sale securities, net of tax	₩ 2,636	₩ 1,098	₩ 3,735
Translation adjustments, net of tax	52	896	948
Shares in other comprehensive income of associates, net of tax	181	422	603
Remeasurements of defined benefit obligation, net of tax	<u>(755)</u>	<u>(3,701)</u>	<u>(4,457)</u>
	<u>₩ 2,114</u>	<u>₩ (1,285)</u>	<u>₩ 829</u>

Changes in accumulated other comprehensive income represent net of tax effect amount.

28. Retained Earnings

Retained earnings as of December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Legal reserve ¹	₩ 4,418	₩ 3,415
Retained earnings before appropriation	<u>251,895</u>	<u>187,263</u>
	<u>₩256,313</u>	<u>₩190,678</u>

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 capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

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29. Operating Expenses

Operating expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Salaries	₩200,083	₩ 95,790
Retirement benefit expense	18,352	6,262
Compensation cost of share-based payments	1,951	5,566
Welfare	51,054	15,253
Travel and transportation expense	5,220	2,286
Taxes and dues	2,993	1,777
Rental expense	12,717	7,541
Commission	234,967	77,787
Advertising expense	56,839	28,887
Bad debt expense	1,504	1,583
Depreciation	49,099	17,149
Amortization	26,293	5,906
Advertising agency fee	105,615	38,434
Cost of goods	7,830	4,601
Outsourcing fee	48,171	7,111
Expenses for events	1,190	2,073
Others	19,686	4,425
	<u>₩843,564</u>	<u>₩322,431</u>

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30. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Other non-operating income		
Gain on disposal of property and equipment	₩ 167	₩ 28
Gain on disposal of Intangible assets	134	-
Gain on disposal of equity method investments	17,245	783
Gain on foreign currency transactions	437	207
Gain on foreign currency translation	277	39
Miscellaneous income	6,192	594
Rent income	7	-
Reversal of allowance for doubtful accounts	582	-
Gains on disposal of other assets	157	-
	<u>₩25,198</u>	<u>₩ 1,651</u>
Other non-operating expenses		
Loss on disposal of property and equipment	₩ 122	₩ 18
Loss on disposal of Intangible assets	1,194	-
Loss on abandon of property and equipment	335	15
Impairment losses on intangible assets	8,959	3,378
Donations	5,920	1,404
Service fees	3,517	3,903
Impairment losses on equity method investments ¹	2,341	-
Loss on foreign currency transactions	923	561
Loss on foreign currency translation	111	45
Loss on disposal of equity method investments	-	2,186
Miscellaneous losses	2,403	1,634
Others	152	2
	<u>₩25,977</u>	<u>₩13,146</u>

¹ The Company recognized impairment loss in relation to DMS Network, Inc. and another investment as the recoverable amount is considered less than their book value as of December 31, 2015, due to decline in sales and other reasons.

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31. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Finance income		
Interest income	₩10,953	₩5,995
Gain on valuation of derivatives	2,412	388
Gain on foreign currency transactions	18	3
Gain on foreign currency translation	1,646	252
Dividend income	83	-
Gain on disposal of available-for-sale securities	14,792	-
	<u>₩29,904</u>	<u>₩6,638</u>
Finance expenses		
Interest expense	₩ 836	₩ 41
Loss on disposals of available-for-sale securities	-	8
Loss on foreign currency transactions	312	18
Loss on foreign currency translation	241	62
Impairment losses on available-for-sale securities	1,009	-
Loss on valuation of derivative financial instruments	1,299	-
	<u>₩ 3,697</u>	<u>₩ 129</u>

32. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year excluding ordinary shares purchased by the Parent Company and held as treasury shares.

Basic earnings per share for the years ended December 31, 2015 and 2014, is calculated as follows:

<i>(in millions of Korean won, except number of shares and per share amounts)</i>	2015	2014
Net income attributable to equity holders of the Parent Company	₩ 75,666	₩ 150,105
Weighted average number of common stock outstanding	<u>59,636,863</u>	<u>46,283,596</u>
Basic earnings per share	<u>₩ 1,269</u>	<u>₩ 3,243</u>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has stock options as dilutive potential ordinary shares. For the stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the

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average annual market share prices of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have issued assuming the stock options are exercised.

Diluted earnings per share for the years ended December 31, 2015 and 2014, is calculated as follows:

<i>(in millions of Korean won, except number of shares and per share amounts)</i>	2015	2014
Profit attributable to equity holders of the Parent Company	₩ 75,666	₩ 150,105
Weighted average number of common stock outstanding	59,636,863	46,283,596
Adjustment for:		
Stock options	2,394,485	3,630,855
Weighted average number of common stock for diluted earnings per share	<u>62,031,348</u>	<u>49,914,451</u>
Diluted earnings per share	<u>₩ 1,220</u>	<u>₩ 3,007</u>

33. Dividends

The dividend to the shareholders of the Parent Company in respect of the year ended December 31, 2015, of ₩167 per share, amounting to total dividends of ₩10,035 million, is to be proposed at the annual general shareholders' meeting on March 30, 2016. The Company's consolidated financial statements as of December 31, 2015, do not reflect this dividend payable.

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34. Cash Generated from Operating Activities

Details of cash generated from operating activities for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Profit before income tax	₩109,543	₩168,829
Adjustments:		
Bad debt expense	1,504	1,583
Depreciation	49,099	17,149
Amortization	26,293	5,906
Impairment losses on intangible assets	8,959	3,378
Loss on disposal of property and equipment	122	18
Gain on disposal of property and equipment	(167)	(28)
Loss on abandon of property and equipment	335	15
Loss on disposal of intangible assets	1,194	-
Gain on disposal of intangible assets	(134)	-
Loss on valuation of equity method investments	7,924	2,792
Gain on valuation of equity method investments	(3,451)	(181)
Loss on disposal of equity method investments	-	2,186
Gain on disposal of equity method investments	(17,245)	(783)
Retirement benefit expense	15,895	3,875
Compensation cost of share-based payments	1,951	5,566
Dividend income	(83)	-
Interest income	(10,953)	(5,995)
Interest expense	836	41
Gain on foreign currency translations	(277)	(252)
Loss on foreign currency translations	111	46
Gain on valuation of derivative financial instruments	(2,412)	(388)
Loss on valuation of derivative financial instruments	1,299	-
Impairment losses on equity method investments	2,341	-
Gain on disposal of available-for-sale securities	(14,792)	-
Reversal of allowance for doubtful accounts	(582)	-
Other long-term employee benefits	7,346	1,171
Impairment losses on available-for-sale securities	1,009	-
Advertising expenses	1,354	1,840
Others	351	1,084

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<i>(in millions of Korean won)</i>	2015	2014
Changes in operating assets and liabilities		
Decrease(increase) in trade receivables	23,597	(18,063)
Increase in inventories	(2,334)	(2,016)
Increase in other current financial assets	(35,244)	(7,159)
Increase in other current assets	(9,608)	(8,202)
Increase in other non-current assets	(5,542)	-
Increase(decrease) in trade payables and others payables	(16,535)	31,435
Increase in other current liabilities	70,125	32,466
Decrease in other financial liabilities	(2,296)	(6,477)
Decrease in other non-current financial liabilities	(31)	(1)
Decrease in other non-current liabilities	(363)	-
Decrease in net defined benefit liabilities	(17,919)	(15,493)
Decrease in other long-term employee benefit liabilities	(2,429)	(472)
Others	(1,431)	99
Cash generated from operating activities	<u>₩187,360</u>	<u>₩213,969</u>

Significant transactions not affecting cash flows for the years ended December 31, 2015 and 2014, are as follows:

<i>(in millions of Korean won)</i>	2015	2014
Write-off of trade receivables	₩ 169	₩ 405
Reclassification from trade receivables to available-for-sale securities	-	20
Provision for restoration to specific property and equipment account	1,935	356
Other payables related to acquisition of property and equipment	4,977	12,401
Other payables related to acquisition of intangible assets	23	416
Donated stocks from shareholders	19,250	-
Acquisition of subsidiary shares by treasury stock	18,574	-

35. Commitments and Contingencies

The Company has provided the following guarantees as of December 31, 2015:

<i>(in millions of Korean won)</i>				
Guarantee	Guaranteed item	Guaranteed amount	Beneficiary	
Employees ¹	Employee loans	₩522	Woori Bank	

¹ The Company provided its employees payment guarantee with a bank for the employees' bank loans related to their welfare and the deposits of ₩4,710 million are pledged as collateral.

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The Company has been provided with the following guarantees by others as of December 31, 2015:

(in millions of Korean won)

Guarantor	Contents	Guaranteed amount	Beneficiary
Seoul Guarantee Insurance and others	Performance guarantee and others	₩2,042	Korea Workers' Compensation & Welfare Service
CEO of subsidiaries	General Guarantee for borrowings	1,283	Industrial Bank of Korea
Kibo Technology Fund	General Guarantee for borrowings	1,000	Kookmin Bank

As of December 31, 2015, the Company is involved in six lawsuits amounting to ₩2,525 million as a defendant or co-defendant. The Company does not expect that these cases would have a material impact on its consolidated financial statements.

In 2008, the Company sold its shares in Ergo Daum Direct General Insurance Co., Ltd. through an agreement which includes a clause that requires the Company to pay the losses from Ergo Daum Direct General Insurance's investment assets for up to ₩2,455 million. As of December 31, 2015, the Company recognized provisions for losses related to this obligation amounting to ₩336 million (Note 22).

The Company's agreements with financial institutions and commitments as of December 31, 2015, are as follows:

<i>(in millions of Korean won)</i>	Agreements	Maximum limit	Amount executed
Korea Development Bank	Bank loans for Industry Working capital	₩5,000	₩ -
Woori Bank	Borrowing for childcare facilities in the workplace	500	250
Industrial Bank of Korea	Credit loan	2,730	2,730
Kookmin Bank	Credit loan	500	500
Small & medium Business Corporation	Credit loan	300	142
HONGKONG QIANQI NETWORK TECHNOLOGY CO., LIMITED	Credit loan	529	529

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Financial instruments restricted as of December 31, 2015 and 2014:

(in millions of Korean won)

	2015	2014	Purpose of restriction
	₩ 660	₩ 26,347	Related to legal procedure
	4,710	8,600	Payment guarantee for employees' loan
Cash and	1,430	1,430	Contractual Obligation
deposits	3,367	1,599	Payment guarantee for lease
in bank	-	500	Bank overdraft arrangements
	240	200	Others
	<u>₩ 10,407</u>	<u>₩ 38,676</u>	

The following assets are pledged as collateral in relation to guarantees for contract fulfillment as of December 31, 2015:

(in millions of Korean won)

Asset	Beneficiary	Book value	Collateralized amount	Type of Guarantee
Land	Jeju Provincial Government	₩38,655	₩8,180	Guarantee for contract fulfillment
Land & Building	Industrial Bank of Korea	1,920	1,716	Acceptances and guarantees in won

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36. Business Combinations

In 2015, the Company acquired the shares of K Cube Ventures and 13 others, which became its subsidiaries, and purchased the businesses from two entities. Details of the percentage of ownership acquired, the consideration paid, and goodwill recognized are as follows:

(in millions of Korean won)

Company	Percentage of ownership Acquired (%)	Consideration	Goodwill
K Cube Ventures	100.0	₩ 17,132	₩ 1,007
Loconnal Inc.	100.0	64,214	50,414
NZIN Corp.	65.8	25,000	1,935
Cardoc	70.1	9,461	5,601
SuperNova11 Corp.	56.4	16,256	13,290
Podotree Inc.	65.6	44,130	42,199
Sellit Inc.	70.0	4,900	1,767
Valuepotion	70.0	927	265
Tangram Design Lab Inc.	51.0	3,460	1,656
about-time	100.0	2,200	2,083
Mmagnet	55.0	550	357
BULLHOC soft	50.6	537	253
NGLE	51.2	305	79
Kakao Style (business acquisition)	-	12,000	5,776
PATH MOBILE INC. PTE. LTD.1 (business acquisition)	-	26,329	19,615
		₩ 227,401	₩146,297

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Details of the consideration transferred, fair value of the acquired identifiable assets and liabilities at the acquisition date, and non-controlling interests in relation to business combinations in 2015, are as follows:

Company	Consideration transferred	Net asset carrying value	Assets and liabilities acquired					Subtotal	Goodwill	Total
			Increase by fair value measurement	Deferred tax liabilities	Non-controlling interest	Goodwill	Total			
K Cube Ventures	₩ 17,132	₩ 33,237	₩ -	₩ -	₩ (17,112)	₩ 16,125	₩ 1,007	₩ 17,132		
Locnall Inc.	64,214	5,956	10,056	(2,212)	-	13,800	50,414	64,214		
NZIN Corp.	25,000	20,392	2,275	(551)	949	23,065	1,935	25,000		
Cardoc	9,461	2,792	3,482	(766)	(1,648)	3,860	5,601	9,461		
SuperNova11 Corp.	16,256	1,985	4,306	(947)	(2,378)	2,966	13,290	16,256		
Podotree Inc.	44,130	(5,784)	11,708	(2,576)	(1,417)	1,931	42,199	44,130		
Sellit Inc.	4,900	1,787	3,237	(553)	(1,338)	3,133	1,767	4,900		
Valuepotion	927	796	203	(44)	(292)	663	265	928		
Tangram Design Lab Inc.	3,460	1,421	1,567	(345)	(839)	1,804	1,656	3,460		
about-time	2,200	117	-	-	-	117	2,083	2,200		
Mmagnet	550	351	-	-	(158)	193	357	550		
BULLHOC soft	537	560	-	-	(277)	283	253	536		
NGLE	305	441	-	-	(215)	226	79	305		
Kakao Style- business acquisition	12,000	-	6,224	-	-	6,224	5,776	12,000		
PATH MOBILE INC. PTE. LTD.1- business acquisition	26,329	-	6,714	-	-	6,714	19,615	26,329		
	<u>₩ 227,401</u>	<u>₩ 64,051</u>	<u>₩ 49,772</u>	<u>₩ (7,994)</u>	<u>₩ (24,725)</u>	<u>₩ 81,104</u>	<u>₩ 146,297</u>	<u>₩ 227,401</u>		

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37. Related Parties Transactions

The list of related parties as of December 31, 2015, is as follows:

Relationship	Related party
Associates	Flowgamez, Add2paper, DMS Network, Nine Flava, NBT, Tapas Media, Inc., DAUM Venture Fund, UserStory Lab, DAUM KAKAO PHILIPPINES CORP., SNACKVOX INC. PTE. LTD, 3 Point Inc., DeNA Locations, NBT Partners Japan, NBT AMERICA INC. HASYS, Manna CEA, Neobarzar, Silver Star Games Inc., others (41 companies)
Other related parties	Kcube holdings Co., Ltd., T for Invest (formerly Climix edu), New learn English Inc., Onyx K., Smart and Growth

Transactions with the related parties for the years ended December 31, 2015 and 2014, and the receivables from and payables to the related parties as of December 31, 2015 and 2014, are as follows:

Transactions

(in millions of Korean won)

	2015					
	Revenues			Purchases		
	Sales	Interest income	Other income	Service fee	Advertising expense	Others
Daum TV	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
NBT	1,462	190	5	839	345	-
UserStory Lab	-	-	-	-	20	-
3 Point Inc.	14	-	-	-	-	100
Red Star Games Inc.	-	34	-	-	-	-
Black Star Games Inc.	-	18	-	-	-	-
WishLink	7,551	-	-	3,050	-	12,000
Podotree Inc.	1	-	-	3,499	-	-
DeNA Locations	683	1	-	-	-	-
	<u>₩9,711</u>	<u>₩ 243</u>	<u>₩ 5</u>	<u>₩7,388</u>	<u>₩ 365</u>	<u>₩12,100</u>

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In 2015, the shares of Podotree Inc. were transferred by the shareholders of the Company for free and the fair value of the said shares amounting to ₩19,250 million was recorded as other capital surplus.

(in millions of Korean won)

	2014					
	Revenues			Purchases		
	Sales	Interest income	Other income	Service fee	Advertising expense	Others
Associates						
Daum TV	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
NBT	274	22	-	-	-	-
Other	-	-	-	-	-	-
Podotree Inc.	22	-	-	63	-	-
	<u>₩296</u>	<u>₩ 22</u>	<u>₩ -</u>	<u>₩ 63</u>	<u>₩ -</u>	<u>₩ -</u>

Receivables and Payables

(in millions of Korean won)

	2015					
	Receivables			Payables		
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables	
Associates						
NBT	₩ 590	₩ -	₩ -	₩ 116	₩ 224	
DeNA Locations	119	-	2	-	136	
WishLink	-	-	-	2,265	-	
	<u>₩ 709</u>	<u>₩ -</u>	<u>₩ 2</u>	<u>₩ 2,381</u>	<u>₩ 360</u>	

(in millions of Korean won)

	2014					
	Receivables			Payables		
	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables	
Associates						
Daum TV	₩ -	₩ -	₩ -	₩ -	₩ -	
NBT	301	2,000	51	-	-	
Other						
Podotree Inc.	52	-	-	-	2,828	
	<u>₩ 353</u>	<u>₩2,000</u>	<u>₩ 51</u>	<u>₩ -</u>	<u>₩ 2,828</u>	

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Loans arising from related party transactions for the years ended December 31, 2015 and 2014, are as follows:

2015	Fund transaction				
	Beginning balance	Loans	Repayments	Changes in scope of subsidiaries	Ending balance
<i>(in millions of Korean won)</i>					
Associate					
NBT	₩ 2,000	₩ -	₩ (2,000)	₩ -	₩ -
3 Points Inc.	-	50	-	-	50
Red Star Games Inc.	-	1,245	-	(1,245)	-
Black Star Games Inc.	-	655	-	(655)	-
DeNA Locations	-	28	(28)	-	-
	<u>₩ 2,000</u>	<u>₩1,978</u>	<u>₩ (2,028)</u>	<u>₩ (1,900)</u>	<u>₩ 50</u>

The Company receives interest for the loans provided to the above related parties.

2014	Fund transaction				
	Beginning balance	Loans	Repayments	Changes in scope of subsidiaries	Ending balance
<i>(in millions of Korean won)</i>					
Associate					
NBT	₩ -	₩ -	₩ -	₩ 2,000	₩ 2,000

Key management compensation

The compensation paid or payable to key management for the years ended December 31, 2015 and 2014, consists of:

<i>(in millions of Korean won)</i>	2015	2014
Salaries	₩897	₩1,268
Retirement benefit expense	57	70
Other long-term employee benefits	9	134
	<u>₩963</u>	<u>₩1,472</u>

38. Event after the Reporting Period

In March 2016, the Parent Company purchased 19,322,346 shares (₩1,877,579 million) of LOEN Entertainment, Inc. with the approval of the Board of Directors on January 11, 2016. The Parent Company paid ₩1,119,877 million in cash and issued 6,913,339 shares of the Parent Company as payment for ₩757,702 million. As a result, LOEN Entertainment, Inc. has become a subsidiary of the Company in 2016.

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
LOEN ENTERTAINMENT, INC.

We have audited the accompanying consolidated financial statements of Loen Entertainment, Inc. and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Loen Entertainment, Inc. and its subsidiaries as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
March 9, 2016

This report is effective as of March 9, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2015 and 2014

<i>(in Korean won)</i>	Note(s)	2015	2014
Assets			
Current assets			
Cash and cash equivalents	4,5,6	₩ 83,148,842,960	₩ 37,633,607,157
Available-for-sale financial assets	4,5,7	-	12,345,000
Other financial assets	4,5	104,000,000,000	124,000,000,000
Trade and other receivables	4,5,8	57,942,764,674	57,071,945,665
Other current assets	9	25,507,675,638	21,273,669,136
Inventories	10	389,154,739	345,639,607
		<u>270,988,438,011</u>	<u>240,337,206,565</u>
Non-current assets			
Available-for-sale financial assets	4,5,7	16,139,770,633	1,851,667,185
Property and equipment	11	11,733,985,219	12,677,895,533
Intangible assets	12	46,687,141,087	34,022,862,572
Defined benefit assets	14	29,918,862	-
Non-current other receivables	4,5,8	9,446,955,247	6,967,146,419
Deferred income tax assets	15	7,765,841,133	8,028,585,807
		<u>91,803,612,181</u>	<u>63,548,157,516</u>
Total assets		<u>₩362,792,050,192</u>	<u>₩303,885,364,081</u>
Liabilities			
Current liabilities			
Trade and other payables	4,5,13	₩ 76,177,889,470	₩ 62,233,141,361
Current income tax liabilities	15	9,592,976,594	12,400,333,817
Other current liabilities	16	26,300,398,817	21,025,605,306
		<u>112,071,264,881</u>	<u>95,659,080,484</u>
Non-current liabilities			
Non-current other payables	4,5,13	2,752,756,690	2,178,180,142
Defined benefit liabilities	14	4,870,851	21,958,085
Other non-current liabilities	16	246,946,585	195,996,425
Deferred income tax liabilities	15	1,738,720,115	-
		<u>4,743,294,241</u>	<u>2,396,134,652</u>
Total liabilities		<u>116,814,559,122</u>	<u>98,055,215,136</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	17	12,645,852,500	12,645,852,500
Capital surplus	17	47,954,194,353	47,481,209,309
Other components of equity	18	12,132,232,984	9,485,675,226
Retained earnings	19	164,658,010,826	132,534,719,401
		<u>237,390,290,663</u>	<u>202,147,456,436</u>
Non-controlling interest	30	8,587,200,407	3,682,692,509
Total equity		<u>245,977,491,070</u>	<u>205,830,148,945</u>
Total liabilities and equity		<u>₩362,792,050,192</u>	<u>₩303,885,364,081</u>

The accompanying notes are an integral part of these consolidated financial statements.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

<i>(in Korean won)</i>	Note(s)	2015	2014
Operating Revenue	27	₩ 357,640,656,211	₩ 323,275,944,206
Operating expenses			
Raw material expenses		13,536,486,137	10,579,700,910
Employee benefits	20	28,633,054,271	28,621,819,242
Service fees		160,293,993,649	144,517,129,932
Depreciation		4,024,169,690	3,946,788,359
Amortization of intangible assets		15,192,931,381	14,216,052,356
Rental expenses		3,688,379,960	3,423,372,873
Promoting expenses		26,601,955,450	12,815,064,308
Royalties		31,090,562,804	33,799,604,274
Advertising expenses		7,054,098,944	6,911,315,997
Other operating expenses	21	4,103,242,112	5,952,424,795
		<u>294,218,874,398</u>	<u>264,783,273,046</u>
Operating profit		63,421,781,813	58,492,671,160
Other income	22	699,421,597	295,479,207
Other expenses	22	1,747,515,091	2,528,672,033
Finance income	5,23	3,576,584,240	3,507,304,018
Finance costs	5,23	168,689,077	164,877,815
Profit before income tax		65,781,583,482	59,601,904,537
Income tax expenses	15	15,502,728,440	13,804,809,364
Profit for the year		<u>50,278,855,042</u>	<u>45,797,095,173</u>
Profit attributable to:			
Equity holders of the Parent Company		50,142,939,000	45,544,917,160
Non-controlling interest		135,916,042	252,178,013
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of net defined benefit liabilities	14	(48,249,112)	(773,113,299)
Items that may be subsequently reclassified to profit or loss			
Gain on valuation of available-for-sale financial assets	5,18	2,646,557,758	416,554,772
		<u>2,598,308,646</u>	<u>(356,558,527)</u>
Total comprehensive income for the year		<u>₩ 52,877,163,688</u>	<u>₩ 45,440,536,646</u>
Other comprehensive income attributable to:			
Equity holders of the Parent Company		₩ 52,752,251,438	₩ 45,196,515,754
Non-controlling interest		124,912,250	244,020,892
Earnings per share	24		
Basic earnings per share		₩ 1,983	₩ 1,801
Diluted earnings per share		1,983	1,801

The accompanying notes are an integral part of these consolidated financial statements.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2015 and 2014

	Attributable to equity holders of the Parent Company					Total Equity	
	Capital Stock	Capital Surplus	Components of equity	Retained Earnings	Total		Non-controlling Interest
<i>(in Korean won)</i>							
Balance at January 1, 2014	₩12,645,852,500	₩47,481,209,309	₩ 9,069,120,454	₩ 87,754,758,419	₩156,950,940,682	₩3,438,671,617	₩160,389,612,299
Comprehensive income							
Profit for the year				45,544,917,160	45,544,917,160	252,178,013	45,797,095,173
Remeasurements of net defined benefit liabilities				(764,956,178)	(764,956,178)	(8,157,121)	(773,113,299)
Gain on valuation of available-for-sale financial assets			416,554,772		416,554,772		416,554,772
Balance at December 31, 2014	₩12,645,852,500	₩47,481,209,309	₩ 9,485,675,226	₩132,534,719,401	₩202,147,456,436	₩3,682,692,509	₩205,830,148,945
Balance at January 1, 2015	₩12,645,852,500	₩47,481,209,309	₩ 9,485,675,226	₩132,534,719,401	₩202,147,456,436	₩3,682,692,509	₩205,830,148,945
Comprehensive income							
Profit for the year				50,142,939,000	50,142,939,000	135,916,042	50,278,855,042
Remeasurements of net defined benefit liabilities				(37,245,320)	(37,245,320)	(11,003,792)	(48,249,112)
Gain on valuation of available-for-sale financial assets			2,646,557,758		2,646,557,758		2,646,557,758
Transactions with owners of the Parent Company, recognized directly in equity							
Annual dividends				(17,982,402,255)	(17,982,402,255)		(17,982,402,255)
New shares issued by a subsidiary		472,985,044			472,985,044	1,235,538,356	1,708,523,400
Changes in consolidation scope						3,544,057,292	3,544,057,292
Balance at December 31, 2015	₩12,645,852,500	₩47,954,194,353	₩12,232,984	₩164,658,010,826	₩237,390,290,663	₩8,587,200,407	₩245,977,491,070

The accompanying notes are an integral part of these consolidated financial statements.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

<i>(in Korean won)</i>	2015	2014
Cash flows from operating activities		
Profit for the year	₩ 50,278,855,042	₩ 45,797,095,173
Adjustments for		
Loss on valuation of inventories	159,389,041	-
Bad debt expenses (reversal)	(979,536,193)	2,164,634,718
Depreciation	4,024,169,690	3,946,788,359
Loss on disposal of available-for-sale financial assets	-	1,027,443,060
Loss on abandonment of property and equipment	162,114	14,382,333
Loss on disposal of intangible assets	-	76,500,000
Amortization of intangible assets	15,192,931,381	14,216,052,356
Impairment loss on intangible assets	1,604,566,025	1,311,339,828
Expenses related to defined benefit plan	1,555,696,988	1,173,192,374
Salaries and wages (long-term employee benefit obligation)	75,450,160	51,311,928
Other bad debt expenses	2,279,098	-
Interest expenses	168,689,077	164,877,815
Income tax expenses	15,502,728,440	13,804,809,364
Gain on disposal of property and equipment	(6,422,528)	(1,085,909)
Reversal of other allowance for doubtful accounts	-	(44,360,761)
Interest income	(3,445,920,240)	(3,507,304,018)
Dividend income	(130,000,000)	-
	<u>33,724,183,053</u>	<u>34,398,581,447</u>
Changes in operating assets and liabilities		
Increase in trade receivables	(1,095,350,128)	(6,185,795,676)
Decrease (increase) in non-trade receivables	(117,221,679)	57,792,851
Increase in advance payments	(2,036,487,396)	(1,314,750,392)
Decrease (increase) in prepaid expenses	120,738,105	(207,136,943)
Decrease (increase) in inventories	(202,904,173)	73,698,453
Increase in trade payables	16,033,244,809	8,973,412,313
Decrease in non-trade payables	(1,473,520,784)	(25,996,637)
Increase in advances from customers	2,783,098,397	2,191,367,501
Increase (decrease) in accrued expenses	(3,371,889,670)	3,443,533,423
Increase in deposits received	56,967,947	65,542,419
Increase in value added tax withheld	485,096,773	1,127,823,525
Decrease in withholdings	(66,815,011)	(1,164,524)
Increase in provision for return inventories	94,435,043	3,645,346
Payment of post-employee benefits	(702,012,759)	(246,957,275)
Increase in pension plan assets	(996,702,397)	(1,954,140,246)
Payment of long-term employee benefit obligation	(24,500,000)	(19,000,000)
	<u>9,486,177,077</u>	<u>5,981,874,138</u>
Cash generated from operations	93,489,215,172	86,177,550,758
Interest received	4,213,814,377	2,881,295,334
Dividend income	130,000,000	-
Payment of income tax	(19,297,977,742)	(12,368,798,254)
Net cash inflow from operating activities	<u>78,535,051,807</u>	<u>76,690,047,838</u>

LOEN ENTERTAINMENT, INC. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

<i>(in Korean won)</i>	2015	2014
Cash flows from investing activities		
Disposal of short-term financial instruments	20,000,000,000	-
Decrease in short-term loans	212,561,739	18,000,000
Disposal of financial instruments at fair value through profit or loss	300,000,000	-
Disposal of available-for-sale financial assets	619,241,552	10,519,059,900
Disposal of property and equipment	44,545,456	1,090,909
Disposal of intangible assets	15,484,210	8,913,027
Decrease in deposits	141,666,400	2,006,800,000
Acquisition of short-term financial instruments	-	(53,700,000,000)
Increase in short-term loans	(172,288,100)	-
Increase in long-term loans	(17,000,000)	-
Acquisition of financial instruments at fair value through profit or loss	(200,000,000)	-
Acquisition of available-for-sale financial assets	(11,003,499,000)	(1,210,000,000)
Acquisition of investments in subsidiaries	(800,000,000)	-
Increase in deposits	(1,463,074,328)	(2,915,061,180)
Acquisition of property and equipment	(3,017,717,346)	(5,093,703,488)
Acquisition of intangible assets	(13,361,564,551)	(13,334,402,730)
Decrease in cash due to changes in consolidation scope	(6,299,419,136)	-
Net cash outflow from investing activities	<u>(15,001,063,104)</u>	<u>(63,699,303,562)</u>
Cash flows from financing activities		
Cash inflow from financing activities	-	-
Cash outflow from financing activities		
Payment of dividends	(17,982,402,255)	-
Payment of finance lease liabilities	(36,350,645)	(26,800,800)
Net cash outflow from financing activities	<u>(18,018,752,900)</u>	<u>(26,800,800)</u>
Net increase in cash and cash equivalents	45,515,235,803	12,963,943,476
Cash and cash equivalents of the beginning of the year	<u>37,633,607,157</u>	<u>24,669,663,681</u>
Cash and cash equivalents of the end of the year	<u>₩ 83,148,842,960</u>	<u>₩ 37,633,607,157</u>

The accompanying notes are an integral part of these consolidated financial statements.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

1. General Information

The general information of LOEN ENTERTAINMENT, INC. (the "Parent Company") and its subsidiaries (collectively referred as the "Group") in accordance with Korean IFRS 1110, *Consolidated Financial Statements*, is described below.

1.1 Overview of the Group and its business

1.1.1 The Parent Company

The Parent Company was incorporated on July 7, 1982, under the Commercial Law of the Republic of Korea, to engage mainly in plan, production and sale of record, internet service, real estate business and other related business. On January 9, 2001, the Parent Company was listed in KOSDAQ and is located in Teheran-ro, Gangnam-gu, Seoul, South Korea.

In March 2008, the Parent Company changed its name from Seoul Records, Inc. to LOEN ENTERTAINMENT, INC. In December 2008, as the Parent Company newly issued common stocks of 9,321,170 shares amounting to ₩43,203,623 thousand, its capital stock increased to ₩4,660,585 thousand. As of December 31, 2015, the capital stock of the Parent Company amounted to ₩12,645,853 thousand and its largest shareholder is (SIH) Star Invest Holdings Limited with ownership of 61.40%.

1.1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2015 and 2014, are as follows:

		2015	2014			
	Location	Controlling percentage of ownership (%)¹	Controlling percentage of ownership (%)	Closing month	Main business	Remark
Starship Entertainment Corp.	Korea	64.8	70	December	Record production and management business	
Kingkong Entertainment Corp.	Korea	100		- December	Artist management business	A subsidiary of Starship Entertainment Corp.
A-cube Entertainment Corp.	Korea	70		- December	Record production and management business	

¹ Percentage of ownership of subsidiaries is included.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

1.1.3 Changes in Scope for Consolidation

Details of subsidiaries which are newly included in consolidation for the year ended December 31, 2015, are described below and none of subsidiaries was excluded from consolidated financial statement during 2015.

	<u>Reason</u>	<u>Percentage of ownership (%)</u>
Kingkong Entertainment Corp. ¹	Newly acquired	100%
A-cube Entertainment Corp. ²	Newly acquired	70%

¹ Starship Entertainment Corp. newly acquired KingKong Entertainment Corp. during the year ended December 31, 2015.

² The Parent Company newly acquired A-cube Entertainment Corp. during the year ended December 31, 2015.

1.2 Summarized Financial Information

Summarized financial information of consolidated subsidiaries as of and for the years ended December 31, 2015 and 2014, is as follows:

(in thousands of Korean won)

	<u>2015</u>					
Subsidiary	Assets	Liabilities	Equity	Sales	Profit for the year	Total comprehensive income
Starship Entertainment Corp. ¹	₩18,356,157	₩7,752,539	₩10,603,618	₩23,345,974	₩2,102,010	₩2,070,723
A-cube Entertainment Corp.	9,755,164	3,212,894	6,542,270	8,976,983	2,591,661	2,591,661

¹ The entity is the intermediate parent company of its subsidiary and above financial information is from its consolidated financial statements.

(in thousands of Korean won)

	<u>2014</u>					
Subsidiary	Assets	Liabilities	Equity	Sales	Profit for the year	Total comprehensive income
Starship Entertainment Corp.	₩10,238,814	₩3,414,442	₩6,824,372	₩13,124,172	₩2,575,703	₩2,548,513

LOEN ENTERTAINMENT, INC. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in Korean language (“Hangul”) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (“Korean IFRS”). The accompanying consolidated 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 financial statements.

The consolidated financial statements of the Group have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning January 1, 2015:

- Amendment to Korean IFRS 1019, *Employee Benefits*

Korean IFRS 1019, *Employee Benefits*, allows a practical expedient for companies that operate defined benefit plans and when contributions are made by employees or third parties. The application of this amendment does not have a significant impact on the consolidated financial statements.

LOEN ENTERTAINMENT, INC. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

- Annual Improvements to Korean IFRS 2010-2012 *Cycle*
- Amendment to Korean IFRS 1102, *Share-based payment*

Korean IFRS 1102, *Share-based payment*, clarifies the definition of a 'vesting conditions', 'performance condition', and 'service condition'.

- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies the classification and measurement of contingent consideration in the business combination.

- Amendment to Korean IFRS 1108, *Operating Segments*

Korean IFRS 1108, *Operating Segments*, requires disclosures of the judgments made by management in aggregating operating segments and a reconciliation of the reportable segments' assets to the entity's assets.

- Amendment to Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*

Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets*, clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

- Amendment to Korean IFRS 1024, *Related Party Disclosures*

Korean IFRS 1024, *Related Party Disclosures*, includes, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

- Annual Improvements to Korean IFRS 2011-2013 *Cycle*
- Amendment to Korean IFRS 1103, *Business Combination*

Korean IFRS 1103, *Business Combination*, clarifies that Korean IFRS 1103 does not apply to the accounting for the formation of any joint arrangement.

- Amendment to Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, clarifies that the portfolio exception, which allows an entity to measure the fair value of a group of financial instruments on a net basis, applies to all contracts (including non-financial contracts) within the scope of Korean IFRS 1039.

LOEN ENTERTAINMENT, INC. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015 and 2014

- Amendment to Korean IFRS 1040, *Investment property*

Korean IFRS 1040, *Investment property*, clarifies that Korean IFRS 1040 and Korean IFRS 1103 are not mutually exclusive.

The above standards, amendments and interpretations applied for the annual period beginning on January 1, 2015, do not have a significant impact on the consolidated financial statements of the Group.

(b) New standards and interpretations not yet adopted

New amendments issued but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below. The Group expects that these amendments and interpretations would not have a significant impact on its consolidated financial statements.

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1041, *Agriculture and fishing: Productive plants*
- Amendment to Korean IFRS 1016, *Property, Plant and Equipment*, and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements*, Korean IFRS 1028, *Investments in Associates and Joint Ventures*, and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*
- Korean IFRS 1111, *Joint Arrangements*
- Annual Improvements to Korean IFRS 2012-2014 Cycle

Further, new standards issued, but not effective for the financial year beginning January 1, 2015, and not early adopted are enumerated below:

- Korean IFRS 1109, *Financial Instruments*

The new standard issued in December 2015 regarding financial instruments replaces Korean IFRS 1039, *Financial Instruments: Recognition and Measurement*.

Korean IFRS 1109, *Financial Instruments*, requires financial assets to be classified and measured on the basis of the holder's business model and the instrument's contractual cash flow characteristics.

The standard requires a financial instrument to be classified and measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss, and provides guidance on accounting for related gains and losses. The impairment model is changed into an expected credit loss

LOEN ENTERTAINMENT, INC. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

model, and changes in those expected credit losses are recognized in profit or loss. The new standard is effective for the financial year initially beginning on or after January 1, 2018, but early adoption is allowed. Early adoption of only the requirements related to financial liabilities designated at fair value through profit or loss is also permitted. The Group is in the process of evaluating the effects resulting from the adoption of the new standard.

- Korean IFRS 1115, *Revenue from Contracts with Customers*

The new standard for the recognition of revenue issued in December 2015 will replace Korean IFRS1018, *Revenue*, Korean IFRS 1011, *Construction Contracts*, and related Interpretations.

Korean IFRS 1115, *Revenue from Contracts with Customers*, will replace the risk-and-reward model under the current standards and is based on the principle that revenue is recognized when control of goods or services transfer to the customer by applying the five-step process. Key changes to current practices include guidance on separate recognition of distinct goods or services in any bundled arrangement, constraint on recognizing variable consideration, criteria on recognizing revenue over time, and increased disclosures. The new standard is effective for annual period beginning on or after January 1, 2018, but early application is permitted. The Group is in the process of evaluating the effects resulting from the adoption of the new standard.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. The Parent Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation of a subsidiary begins from the date the parent company obtains control of a subsidiary and ceases when the Parent Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net

LOEN ENTERTAINMENT, INC. and Subsidiaries
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assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred.

Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the 'functional currency'). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rates of reporting dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the functional currency using the exchange rates at the date of the transaction.

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Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash without significant transaction costs which are subject to an insignificant risk of changes in value.

2.6 Financial Assets

2.6.1 Classification

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. Regular purchases and sales of financial assets are recognized on trade date. Management determines the classification of financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated at such upon initial recognition. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred.

(b) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

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(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables that have maturities of more than 12 months from the end of the reporting period are classified as non-current assets; otherwise, they are classified as current assets. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables. They are included in non-current assets unless an investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes in fair value are recognized as other comprehensive income and loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

2.6.2 Recognition and Measurements

Regular purchases and sales of financial assets are recognized on the trade date. At initial recognition, financial assets are measured at fair value plus, and in the case of financial assets not carried at fair value through profit or loss, transaction costs. The transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

Interest on available-for-sale financial assets and held-to-maturity financial assets calculated using the effective interest rate method is recognized in the statement of comprehensive income as part of finance income. Dividends on available-for-sale financial assets are recognized in the statement of comprehensive income as part of finance income when the Group's right to receive dividend payments is established.

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2.6.3 Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments; granting to the borrower a concession that the lender would not otherwise consider; or the disappearance of an active market for that financial asset because of financial difficulties. A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is also an objective evidence of impairment. Certain financial assets such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Impairment of loans and receivables is presented as a deduction in allowance for doubtful account.

The impairment loss on financial assets carried at cost is measured as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses are recognized as profit or loss but not reversed.

The impairment loss on financial assets carried at amortized cost is measured as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. Impairment of other financial assets is directly deducted from their carrying amount. If, in a subsequent period, the fair value of a financial assets increases and the increases can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss will be reversed, with the amount of the reversal recognized in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the accumulated loss that had been recognized in other comprehensive income will be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an available-for-sale equity instruments will not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss will be reversed, with the amount of the reversal recognized in profit or loss.

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2.6.4 Derecognition

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows from the financial asset and all the risks and rewards of ownership of the financial asset. If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the statement of financial position.

2.6.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.7 Inventories

Costs are determined by using the gross average method. The acquisition cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred while preparing inventories available for use.

When inventories are sold, the carrying amount of those inventories is recognized as cost of goods sold in the period in which the related revenue is recognized. Inventories are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of inventories recognized as raw material expenses in the period in which the reversal occurs.

2.8 Property and Equipment

Property and equipment are initially measured at cost and the cost of property and equipment 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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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Subsequent to initial recognition, property and equipment are carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The cost of replacing a part of property and equipment are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of ordinary repair and maintenance are recognized in profit or loss as incurred.

Gains and losses on disposal of an item of property and equipment are determined as the differences between net disposal proceeds, if any, and the carrying amount of property and equipment and are recognized as other income and expense.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

	Useful life
Buildings	40 years
Machinery	6
Facilities	5
Tools and equipment	4- 5
Vehicles	4- 5

The depreciation method, residual values and useful lives of property and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

2.9 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.10 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attached to it. Government grants related to assets are presented by deducting the grants to arrive at the carrying amount of the assets, and grants recognized as income are deferred and presented by deducting the expenses related to the purpose of the government grants.

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2.11 Intangible Assets

Goodwill is measured as explained in Note 2.3.(1) and carried at its cost less accumulated impairment losses.

Intangible assets, except for goodwill, are initially recognized at its historical cost and carried at its cost less accumulated amortization and accumulated impairment losses.

Intangible assets are calculated using the straight-line method and the unit of production method to allocate between their cost and their residual values over their estimated useful lives at the time the asset is available for use. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized.

	Useful lives
Membership rights	Indefinite
Exclusive management rights	Contract period (2 - 10 years)
Industrial property rights	5 years
Other intangible assets	Contract period (3 - 10 years)

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

2.12 Impairment of Non-financial Assets

The Group assesses at the end of each reporting period whether there is any indication that a non-financial asset, except for (i) assets arising from employee benefits, (ii) inventories and (iii) deferred income tax assets, may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, the Group tests (i) goodwill acquired in a business combination, (ii) intangible assets with an indefinite useful life and (iii) intangible assets not yet available for use for impairment annually by comparing their carrying amount with their recoverable amount.

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The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit that are discounted by an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

An impairment loss is recognized if the asset's carrying amount exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and recognized immediately in profit or loss. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

In reaching the best estimate of a provision, the risks and uncertainties that inevitably surround many events and circumstances are taken into account and where the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. Increase in provisions due to passage of time is recognized as interest expense.

Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provisions are reversed.

A provision will be used only for expenditures for which the provision was originally recognized.

2.14 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized as profit or loss for the year in the statement of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

2.14.1 Current tax

Current income tax charge is calculated on taxable profits for the reporting period. There is a difference between taxable profits and accounting profit in the statement of comprehensive income as taxable profits exclude profit or loss added or deducted in other periods and non-taxable or deductible items.

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Income tax payable, related to current income tax charge, is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

2.14.2 Deferred tax

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred income tax asset is reviewed at each reporting period and the carrying amount of a deferred tax asset is reduced when future taxable profit is no longer available against the deferred income tax assets to be utilized.

Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2.15 Employee Benefits

(a) Short-term employee benefits

Short-term employee benefits that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service, are recognized as profits or loss when an employee has provided service for the amount expected to be paid in exchange for service. Short-term employee benefits are measured on an undiscounted basis.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Remeasurements are recognized in profit or loss in the period in which they arise.

(c) Post-employment benefits

The Group has both defined contribution and defined benefit plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period they occur under the comprehensive income or loss. If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

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2.16 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods, rendering of services or fee income arising from the normal activities of the Group. It is stated as net of value added taxes, returns and discounts, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the purchaser, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of allowances, discounts and returns.

(b) Rendering of services

Revenue is recognized when the Group's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group.

(c) Fee income

When the Group takes a role as agent for supplier in a transaction, not directly involved, revenue associated with the transaction is recognized as net of the payment to supplier of the goods or services subtracted from the charged.

2.17 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

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Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments at the inception date of the lease period.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

2.18 Segment Reporting

Operating segments are components of the Group about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has two reportable segments as described in Note 27 and each segment is strategic operating unit of the Group. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Chief Executive Officer is responsible for allocating resources and accessing performance of the operating segments.

2.19 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2015 financial statements of the Group was approved by the Board of Directors on February 16, 2016, which is subject to change with the approval of the shareholders at its annual shareholders' meeting.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. As a result, accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are continually evaluated. 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. The critical accounting estimates and assumptions applied in the preparation of consolidated financial statements are the same as the consolidated financial statements of the prior year.

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The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Recognition of revenue

Revenue from rendering service is reasonably recognized on an accrual basis when revenue-earning process is complete or substantially complete, the amount of revenue is reliably measured and it is probable that economic benefits will flow to the Group.

(b) Income taxes

The Group recognizes income tax and deferred income tax for anticipated tax audit issues based on the best estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects

(c) Net defined benefit liability

The present value of the net defined benefit liability depends on various factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the net defined benefit liability. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the net defined benefit liability. Other key assumptions for net defined benefit liability are based on current market conditions.

(d) Impairment loss of goodwill

In order to review the impairment loss of goodwill, the recoverable amounts of cash generating units have been determined based on value-in-use calculations.

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4. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The note regarding financial risk management provides information about the risks that the Group is exposed to, the objective, policies and processes for measuring and managing risk, and the Group's management of capital. Additional quantitative information is disclosed throughout the financial statements. The Group has a risk management policy and program in place to monitor and actively manage such risks.

4.1 Financial Risk Factors

The Group's financial assets that are under financial risk management are composed of cash and cash equivalents, short-term financial instruments, available-for-sale financial assets, trade and other receivables, and other financial assets. The Group's financial liabilities under financial risk management are composed of trade and other payables, and other financial liabilities.

4.1.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

(a) Foreign exchange risk

The Group does not hold any significant assets and liabilities denominated in foreign currencies as of December 31, 2015 and 2014.

(b) Price risk

The Group invests in equity securities (listed securities) which are classified as available-for-sale financial assets in consolidated financial statements. The Group's investments in equity of other entities that are publicly traded are included in KOSDAQ index.

If there is a change in the price of equity securities (listed stock) by 1%, changes in other comprehensive income as of December 31, 2015, are expected to amount to ₩110 million.

(c) Interest rate risk

i) Fair value sensitivity analysis of financial instruments at fixed interest rate

The financial instruments at fixed interest rate are not recognized as financial instruments at fair value through profit or loss. Accordingly, changes in interest rate have no impact on income and loss.

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ii) Cash flow sensitivity analysis of financial instruments at floating interest rate

As of December 31, 2015, the Group does not hold any financial instruments at floating interest rate.

4.1.2 Credit Risk

Credit risk arises during the ordinary course of transactions and investing activities, where clients or another party fails to discharge an obligation. The Group monitors and sets the counterparty's credit limit on a periodic basis based on the counterparty's financial conditions, default history and other important factors. In addition, the Group establishes and manages credit limits for each customer or counterparty.

For the year ended December 31, 2015, the Group has no trade and other receivables or other financial assets including loans and non-trade receivables which have indications of significant impairment loss or are overdue for a prolonged period. As a result, the Group believes that the possibility of default is remote. Also, the Group's credit risk can rise due to transactions with financial institutions related to its cash and cash equivalents and transactions with financial institutions such as all types of deposits. To minimize such risk, the Group has a policy to deal with high credit worthy financial institutions with a minimum rating of 'A'. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets, net of cash.

The maximum exposure to credit risk as of December 31, 2015 and 2014, is as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Cash and cash equivalents	₩ 83,147,771	₩ 37,632,833
Available-for-sale financial assets	16,139,771	1,864,012
Trade and other receivables	67,389,720	64,039,092
Other financial assets	104,000,000	124,000,000

4.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group flexibly maintains sufficient liquidity under credit lines through active operating activities.

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Details of the contractual maturities of financial liabilities as of December 31, 2015 and 2014, are as follows. The amounts below include interest paid, but not the effect of offsetting agreements.

<i>(in thousands of Korean won)</i>	2015				
	Carrying amount	Contractual cash flows	Within 6 months	Between 6 months and 1 year	Over 1 year
Trade and other payables	₩78,930,646	₩79,284,563	₩75,073,563	₩ 1,156,200	₩3,054,800

<i>(in thousands of Korean won)</i>	2014				
	Carrying amount	Contractual cash flows	Within 6 months	Between 6 months and 1 year	Over 1 year
Trade and other payables	₩64,411,322	₩64,761,636	₩61,381,636	₩ 890,000	₩2,490,000

4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as debt divided by equity.

The debt-to-equity ratio as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Total debt (A)	₩116,814,559	₩ 98,055,215
Total equity (B)	245,977,491	205,830,149
Debt-to-equity ratio (A/B)	47.49%	48%

4.3 Fair Value Measurements

4.3.1 Financial Risk Factors

Carrying amount and fair value of financial instruments by category as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets ¹	₩14,495,000	₩14,495,000	₩ -	₩ -
	₩14,495,000	₩14,495,000	₩ -	₩ -

¹ Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

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Financial assets including cash and cash equivalents, financial deposits, trade receivables, and other receivables and financial liabilities including trade payables and other payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

4.3.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Available-for-sale financial assets¹		
Non-listed stocks	₩ 133,667	₩ 133,667
Other equity investments	1,511,103	1,718,000
Debt instruments	-	12,345
Total	<u>₩1,644,770</u>	<u>₩1,864,102</u>

4.3.3 Fair Value Hierarchy

Financial instruments measured at fair value are categorized by inputs used in fair value measurements within the following fair value hierarchy.

Level	Useful life
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Details of financial assets and financial liabilities that are measured at fair value as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩14,495,000	₩ -	₩ -	₩14,495,000
<i>(in thousands of Korean won)</i>	2014			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ -	₩ -	₩ -	₩ -

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5. Financial Instruments by Category

5.1 Carrying Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as of December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015		
	Loans and receivables	Available-for- sale financial assets	Total
Financial assets			
Cash and cash equivalents	₩ 83,148,843	₩ -	₩ 83,148,843
Available-for-sale financial assets	-	16,139,771	16,139,771
Other financial assets	104,000,000	-	104,000,000
Trade and other receivables	67,389,720	-	67,389,720
	<u>₩254,538,563</u>	<u>₩16,139,771</u>	<u>₩270,678,334</u>

(in thousands of Korean won)

	2015	
	Financial liabilities carried at amortized cost	
Financial liabilities		
Trade payables	₩	59,246,789
Other payables		19,683,857
	<u>₩</u>	<u>78,930,646</u>

(in thousands of Korean won)

	2014		
	Loans and receivables	Available-for- sale financial assets	Total
Financial assets			
Cash and cash equivalents	₩ 37,633,607	₩ -	₩ 37,633,607
Available-for-sale financial assets	-	1,864,012	1,864,012
Other financial assets	124,000,000	-	124,000,000
Trade and other receivables	64,039,092	-	64,039,092
	<u>₩225,672,699</u>	<u>₩1,864,012</u>	<u>₩227,536,711</u>

(in thousands of Korean won)

	2014	
	Financial liabilities carried at amortized cost	
Financial liabilities		
Trade payables	₩	42,654,738
Other payables		21,756,583
	<u>₩</u>	<u>64,411,321</u>

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5.2 Net gains or Losses by Category of Financial Instruments

Net gains or net losses on each category of financial instruments for the years ended December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015			
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Interest income	₩ 17,263	₩3,428,271	₩ 386	₩3,445,920
Exchange differences	-	24,202	-	24,202
Dividend income	-	-	130,000	130,000
Gain on valuation (other comprehensive income)	-	-	2,646,558	2,646,558
Loss on valuation/disposal	-	(996,106)	-	(996,106)
	<u>₩ 17,263</u>	<u>₩2,456,367</u>	<u>₩ 2,776,944</u>	<u>₩5,250,574</u>

(in thousands of Korean won)

	2015
	Financial liabilities carried at amortized cost
Interest expense	₩ 168,689

(in thousands of Korean won)

	2014		
	Loans and receivables	Available-for-sale financial assets	Total
Interest income	₩3,506,995	₩ 309	₩ 3,507,304
Exchange differences	(6,574)	-	(6,574)
Gain on valuation (other comprehensive income)	-	416,555	416,555
Loss on valuation/disposal	(1,399,238)	(1,027,443)	(2,426,681)
	<u>₩2,101,183</u>	<u>₩ (610,579)</u>	<u>₩ 1,490,604</u>

(in thousands of Korean won)

	2014
	Financial liabilities carried at amortized cost
Interest expense	₩ 164,878

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6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Cash on hand	₩ 1,072	₩ 774
Cash equivalents ¹	<u>83,147,771</u>	<u>37,632,833</u>
	<u>₩83,148,843</u>	<u>₩37,633,607</u>

¹ Cash equivalents are highly liquid financial instruments that are readily convertible to fixed amounts and subject to an insignificant risk of changes in value.

7. Available-For-Sale Financial Assets

Changes in available-for-sale financial assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Beginning balance	₩ 1,864,012	₩ 11,662,331
Changes in consolidation scope	400,000	-
Acquisitions ^{1,2}	11,003,499	1,210,000
Disposals ^{3,4}	(619,242)	(11,008,319)
Gain on valuation	<u>3,491,502</u>	-
Ending balance	16,139,771	1,864,012
Less: non-current portion	<u>16,139,771</u>	<u>1,851,667</u>
Current portion	<u>₩ -</u>	<u>₩ 12,345</u>

¹ The Group acquired 5.14% ownership of FNC Entertainment Co., Ltd. amounting to ₩11,003,499 thousand in cash. After the acquisition, the percentage of ownership decreased to 4.52% due to stock issuance of FNC Entertainment Co., Ltd. in 2015.

² In 2014, the Group additionally invested ₩210,000 thousand in Stone Bridge Soap Opera Investment Associate and newly invested ₩1,000,000 thousand in SMCI VI Early Stage Product Fund.

³ The Group received distribution amounting to ₩206,897 thousand from investment in Stone Bridge Soap Opera Investment Associate in 2015.

⁴ All of investments in JYP Entertainment were disposed of in 2014.

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Details of available-for-sale financial assets as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Equity securities		
Listed stocks		
FNC Entertainment Co., Ltd.	₩14,495,000	₩ -
Non-listed stocks ¹		
Seoul Media Inc.	30,000	30,000
FE Entertainment Co., Ltd.	103,667	103,667
	<u>133,667</u>	<u>133,667</u>
Other equity investments ¹		
Record Reproduction Cooperative Association	8,000	8,000
Stone Bridge Soap Opera Investment Associate	503,104	710,000
SMCI VI Early Stage Product Fund	1,000,000	1,000,000
	<u>1,511,104</u>	<u>1,718,000</u>
Debt instruments		
Government bonds	-	12,345
	<u>₩16,139,771</u>	<u>₩ 1,864,012</u>

¹ Non-marketable equity securities are measured at historical costs, rather than fair value, since there is no existing quoted price in an active market, and the deviation of estimated cash flow is significant to reasonably estimate such fair value.

8. Trade and other Receivables

Trade and other receivables as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015		2014	
	Current	Non-current	Current	Non-current
Trade receivables	₩57,102,052	₩ -	₩55,607,476	₩ -
Short-term loans	24,490	-	-	-
Non-trade receivables	446,616	-	329,993	-
Accrued income	369,606	-	1,134,477	-
Long-term loans	-	17,000	-	-
Deposits	-	9,429,955	-	6,967,146
	<u>₩57,942,765</u>	<u>₩9,446,955</u>	<u>₩57,071,946</u>	<u>₩6,967,146</u>

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The aging analysis of the trade and other receivables as of December 31, 2015 and 2014, is as follows:

<i>(in thousands of Korean won)</i>	2015		2014	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Receivables not past due	<u>₩55,023,021</u>	<u>₩10,463,043</u>	<u>₩53,331,505</u>	<u>₩8,725,066</u>
Past due but not impaired				
Up to 3 months	931,793	16,156	1,189,513	34,598
3 to 6 months	256,367	2,960	550,397	1,285
Over 6 months	<u>5,133,216</u>	<u>166,982</u>	<u>4,275,820</u>	<u>160,400</u>
	<u>6,321,376</u>	<u>186,098</u>	<u>6,015,730</u>	<u>196,283</u>
Impaired ¹	<u>491,705</u>	<u>69,223</u>	<u>493,246</u>	<u>69,102</u>
Total	<u>₩61,836,102</u>	<u>₩10,718,364</u>	<u>₩59,840,481</u>	<u>₩8,990,451</u>

¹ As a result of individual evaluation, these include trade receivables with 100% allowance, which may not be collected due to debtor's bankruptcy, receivership, reorganization and liquidation.

Provisions for impaired receivables amount to ₩4,918,152 thousand as of December 31, 2015 (2014: ₩4,414,829 thousand).

Changes in provisions for impairment of trade and other receivables for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Beginning balance	₩4,414,829	₩3,519,016
Provision (trade receivables)	993,827	1,448,199
Provision (non-trade receivables)	2,279	-
Reversal (non-trade receivables)	-	(54,361)
Write-off	(509,863)	(498,025)
Other changes ¹	<u>17,080</u>	<u>-</u>
Ending balance	<u>₩4,918,152</u>	<u>₩4,414,829</u>

¹ Increase due to changes in consolidation scope in 2015.

The allowance provision and reversal for impaired receivables have been included in 'Operating expenses' and 'other income (expenses)' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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9. Other Current Assets

Details of other current assets as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Advance payments	₩ 35,341,555	₩ 32,864,095
Allowance for advance payments	<u>(10,556,267)</u>	<u>(12,529,630)</u>
	24,785,288	20,334,465
Prepaid expenses	<u>722,388</u>	<u>939,204</u>
	<u>₩ 25,507,676</u>	<u>₩ 21,273,669</u>

Changes in allowance for advance payments for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Beginning balance	₩12,529,630	₩11,804,181
Provision ¹	-	728,883
Reversal ¹	<u>(1,973,363)</u>	<u>(3,434)</u>
Ending balance	<u>₩10,556,267</u>	<u>₩12,529,630</u>

¹ The allowance provision and reversal have been included in 'operating expenses' in the statement of comprehensive income.

10. Inventories

Inventories as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015			2014		
	Cost	Valuation allowance	Carrying amount	Cost	Valuation allowance	Carrying amount
Finished goods	₩749,291	₩(391,101)	₩358,190	₩665,146	₩(391,912)	₩273,234
Merchandise	10,872	(10,807)	65	10,878	(10,585)	293
Sub-materials	<u>134,911</u>	<u>(104,011)</u>	<u>30,900</u>	<u>149,654</u>	<u>(77,541)</u>	<u>72,113</u>
	<u>₩895,074</u>	<u>₩(505,919)</u>	<u>₩389,155</u>	<u>₩825,678</u>	<u>₩(480,038)</u>	<u>₩345,640</u>

Loss on valuation of inventories recognized as operating expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Loss on valuation of inventories	₩159,389	₩190,342

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The cost of inventories recognized as expense amounts to ₩13,536,486 thousand (2014: ₩10,579,701 thousand).

11. Property and equipment

Details of property and equipment as of December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015			2014		
	Cost	Valuation allowance	Carrying amount	Cost	Valuation allowance	Carrying amount
Land	₩ 100,890	₩ -	₩ 100,890	₩ 100,890	₩ -	₩ 100,890
Buildings	1,207,984	(222,605)	985,379	1,207,984	(192,405)	1,015,579
Machinery	18,235,799	(9,911,940)	8,323,859	15,946,543	(7,372,563)	8,573,980
Vehicles	301,483	(259,287)	42,196	207,153	(165,518)	41,635
Tools and equipment	7,531,221	(5,249,560)	2,281,661	6,941,952	(3,996,140)	2,945,812
	<u>₩27,377,377</u>	<u>₩(15,643,392)</u>	<u>₩11,733,985</u>	<u>₩24,404,522</u>	<u>₩(11,726,626)</u>	<u>₩ 12,677,896</u>

Changes in property and equipment for the years ended December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015					
	Land	Buildings	Machinery	Vehicles	Tools and equipment	Total
Beginning balance	₩100,890	₩1,015,579	₩ 8,573,980	₩ 41,635	₩ 2,945,812	₩12,677,896
Acquisition	-	-	2,279,906	33,298	734,400	3,047,604
Disposal	-	-	-	(38,123)	(162)	(38,285)
Depreciation	-	(30,200)	(2,530,806)	(43,034)	(1,420,130)	(4,024,170)
Other changes ¹	-	-	779	48,420	21,741	70,940
Ending balance	<u>₩100,890</u>	<u>₩ 985,379</u>	<u>₩ 8,323,859</u>	<u>₩ 42,196</u>	<u>₩ 2,281,661</u>	<u>₩11,733,985</u>

¹ Increase due to changes in consolidation scope in 2015.

(in thousands of Korean won)

	2014					
	Land	Buildings	Machinery	Vehicles	Tools and equipment	Total
Beginning balance	₩100,890	₩1,045,778	₩ 7,178,048	₩ 75,559	₩ 3,145,092	₩11,545,367
Acquisition	-	-	3,817,357	-	1,276,347	5,093,704
Disposal	-	-	(14,161)	-	(226)	(14,387)
Depreciation	-	(30,199)	(2,407,264)	(33,924)	(1,475,401)	(3,946,788)
Ending balance	<u>₩100,890</u>	<u>₩1,015,579</u>	<u>₩ 8,573,980</u>	<u>₩ 41,635</u>	<u>₩ 2,945,812</u>	<u>₩12,677,896</u>

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The Group entered into financial lease contracts with Hyundai Capital Service, Inc. and JB Woori Capital Co., Ltd. for vehicles and recognized the said contracts as assets and liabilities. The lease terms are three years with monthly payments. The Group can exercise bargain purchase option or renewal of the lease after termination of the lease term.

Details of financial lease asset as of December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	Vehicles
Acquisition cost	₩ 98,906
Accumulated depreciation	<u>(65,203)</u>
Carrying amount	<u>₩ 33,703</u>

The total of future minimum lease payments and present value of lease payments as of December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	Vehicles
Within 1 year	₩ 9,550
After 1 year	<u>796</u>
	10,346
Unearned interest income	<u>(348)</u>
	<u>₩ 9,998</u>

12. Intangible Assets

Details of intangible assets as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Goodwill	₩13,933,575	₩ 6,472,394
Industrial property rights	183,821	105,383
Exclusive management rights	14,179,816	7,183,554
Membership rights	1,686,830	1,686,830
Other intangible assets	<u>16,703,099</u>	<u>18,574,701</u>
	<u>₩46,687,141</u>	<u>₩34,022,862</u>

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Changes in intangible assets for the years ended December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015					
	Industrial property rights	Exclusive management rights	Membership rights	Other intangible assets	Goodwill	Total
Beginning balance	₩ 105,383	₩ 7,183,554	₩ 1,686,830	₩ 18,574,701	₩ 6,472,394	₩ 34,022,862
Acquisition	116,882	1,392,191	-	11,852,492	-	13,361,565
Disposal	-	-	-	(15,484)	-	(15,484)
Transfer	-	-	-	(3,757)	-	(3,757)
Impairment ¹	-	(10,000)	-	(1,594,566)	-	(1,604,566)
Amortization	(38,444)	(3,036,314)	-	(12,118,173)	-	(15,192,931)
Other changes ²	-	8,650,385	-	7,886	7,461,181	16,119,452
Ending balance	<u>₩ 183,821</u>	<u>₩ 14,179,816</u>	<u>₩ 1,686,830</u>	<u>₩ 16,703,099</u>	<u>₩ 13,933,575</u>	<u>₩ 46,687,141</u>

¹ It is probable that future economic benefits are significantly lower than the carrying amount; therefore, an impairment loss on intangible assets amounting to ₩1,604,566 thousand is recognized as other expenses in the statement of comprehensive income for the year ended December 31, 2015 (Note 22).

² Increase due to changes in consolidation scope in 2015

(in thousands of Korean won)

	2014					
	Industrial property rights	Exclusive management rights	Membership rights	Other intangible assets	Goodwill	Total
Beginning balance	₩ 46,433	₩ 9,505,869	₩ 802,957	₩ 19,473,612	₩ 6,472,394	₩ 36,301,265
Acquisition	75,261	94,000	883,873	12,281,268	-	13,334,402
Disposal	-	(4,135)	-	(81,278)	-	(85,413)
Impairment ¹	-	-	-	(1,311,340)	-	(1,311,340)
Amortization	(16,311)	(2,412,180)	-	(11,787,561)	-	(14,216,052)
Ending balance	<u>₩ 105,383</u>	<u>₩ 7,183,554</u>	<u>₩ 1,686,830</u>	<u>₩ 18,574,701</u>	<u>₩ 6,472,394</u>	<u>₩ 34,022,862</u>

¹ It is probable that future economic benefits are significantly lower than the carrying amount; therefore, an impairment loss on intangible assets amounting to ₩1,311,340 thousand was recognized as other expenses in the statement of comprehensive income for the year ended December 31, 2014 (Note 22).

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12.1 Intangible assets with Indefinite Useful Life

Membership rights are classified into intangible assets with indefinite useful life and not amortized. The membership rights were tested for impairment and there is no indication that the membership rights are impaired.

12.2 Impairment Tests for Goodwill

Goodwill is monitored by the management at the cash-generating unit level. The following is a summary of goodwill allocation for each operating segment as of December 31, 2015 and 2014:

<i>(in thousands of Korean won)</i>	2015	2014
Starship Entertainment Corp.	₩6,472,394	₩6,472,394
Kingkong Entertainment Corp.	3,253,625	-
A-Cube Entertainment Corp.	4,207,556	-

Goodwill is tested annually for impairment. There is no recognized impairment loss on goodwill by the recoverable amounts calculated based on value-in-use of each cash-generating unit.

The recoverable amount of cash generating unit has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

Management determined the pre-tax cash flow projections based on past performance and expectations of market growth. Key assumptions applied to value-in-use calculations as of December 31, 2015, are as follows:

	Perpetual growth rate	Pre-tax discount rate
Starship Entertainment Corp.	0.0%	20.1%
Kingkong Entertainment Corp.	0.0%	18.3%
A-cube Entertainment Corp.	0.0%	20.1%

Even though the recoverable amounts of cash-generating units that are allocated to goodwill exceed the book value as of December 31, 2015, there is a possibility that reasonable changes in key assumptions may offset the excess amount. In this regard, management continuously monitors the related sales and market trend.

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13. Trade and Other Payables

Trade and other payables as of December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015		2014	
	Current	Non-current	Current	Non-current
Trade payables	₩59,246,789	₩ -	₩42,654,738	₩ -
Non-trade payables ¹	4,377,591	2,752,757	4,222,993	2,178,180
Accrued expenses	10,497,375	-	13,446,163	-
Deposits received	2,056,134	-	1,909,247	-
	<u>₩76,177,889</u>	<u>₩2,752,757</u>	<u>₩62,233,141</u>	<u>₩2,178,180</u>

¹ Finance lease liabilities are included.

The differences between book value and fair value of trade and other payables are not significant.

14. Post-employment Benefits

14.1 Defined Benefit Plan

The majority of defined benefit plans are final salary pension plans, which provide benefits to employees in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on employees' length of service and their salary in the final years leading up to retirement. The majority of benefit payments are from trustee administered funds; however, there are also a number of unfunded plans. Plan assets held in trusts are governed by local regulations and practice in each country.

Details of net defined benefit liabilities and assets recognized in the statements of financial position as of December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015	2014
Present value of funded defined benefit obligations	₩ 6,119,532	₩ 4,968,562
Fair value of plan assets	<u>(6,144,580)</u>	<u>(4,946,604)</u>
Liabilities in the statement of financial position	₩ 4,871	₩ 21,958
Assets in the statement of financial position	<u>₩ 29,919</u>	<u>₩ -</u>

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The amounts recognized as profit or loss in the statements of comprehensive income for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Current service cost	₩1,602,335	₩1,180,199
Net interest income and expenses	(1,073)	(7,007)
Loss arising from settlements ¹	<u>(45,565)</u>	<u>-</u>
Total expense included in employee benefits	<u>₩1,555,697</u>	<u>₩1,173,192</u>

¹ Loss arising from settlements is the amount incurred when pension plans changed from defined benefit plan to defined contribution plan during the year ended December 31, 2015.

Changes in the defined benefit obligations for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Beginning balance	₩4,968,562	₩2,940,573
Current service cost	1,602,335	1,180,199
Interest expense	136,720	105,311
Loss arising from settlements ¹	(45,565)	-
Remeasurements:		
- Actuarial gains and losses arising from changes in demographic assumptions	(31,415)	18,032
- Actuarial gains and losses arising from changes in financial assumptions	200,834	460,258
- Actuarial gains and losses arising from experience adjustments	(154,918)	511,146
Payments from plans:		
- Benefit payments	(312,262)	(246,957)
Settlement payments	(389,751)	
Other changes ²	<u>144,992</u>	<u>-</u>
Ending balance	<u>₩6,119,532</u>	<u>₩4,968,562</u>

¹ Loss arising from settlements is the amount incurred when pension plans changed from defined benefit plan to defined contribution plan during the year ended December 31, 2015.

² Increase due to changes in consolidation scope in 2015.

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Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Beginning balance	₩4,946,604	₩2,920,282
Interest income	137,793	112,318
Remeasurements:		
- Return on plan assets (excluding amounts included in interest income)	(47,988)	(40,136)
Contributions:		
- Employers	1,704,147	2,195,666
Payments from plans:		
- Benefit payments	(317,693)	(241,526)
Settlements payments	(389,751)	
Other changes ¹	111,468	-
Ending balance	<u>₩6,144,580</u>	<u>₩4,946,604</u>

¹ Increase due to changes in consolidation scope in 2015.

Plan assets as of December 31, 2015 and 2014, consist of:

<i>(in thousands of Korean won)</i>	2015	2014
Debt financial instruments	₩6,144,580	₩4,946,604

The principal actuarial assumptions as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Discount rate	2.4%~2.67%	2.7%~3.15%
Salary growth rate	4.07%~4.10%	4.10%~4.13%

The sensitivity of the defined benefit obligations as of December 31, 2015, to changes in the weighted principal assumptions is:

When significant actuarial assumptions are changed in possible and reasonable extent, the impact on the defined benefit obligations as of December 31, 2015, are as follows:

<i>(in percentage)</i>	Effect on defined benefit obligation		
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	1%	8.0% decrease	9.6% increase
Salary growth rate	1%	9.3% increase	8.0% decrease

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The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the statement of financial position. The sensitivity analyses do not consider that all cash flows expected from the pension plan, but provide approximation of sensitivity under the assumptions used.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2016, are ₩1,813 million.

Expected maturity analysis of undiscounted pension benefits as of December 31, 2015, is as follows:

<i>(in thousands of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩ 1,641,993	₩ 508,413	₩ 1,930,744	₩31,269,499	₩35,350,649

The weighted average duration of the defined benefit obligations is 11.3 years.

14. 2 Defined Contribution Plan

Recognized expense related to the defined contribution plan for the year ended December 31, 2015, is ₩142,615 thousand.

15. Tax Expense and Deferred Tax

Income tax expenses for the years ended December 31, 2015 and 2014, consist of:

<i>(in thousands of Korean won)</i>	2015	2014
Current tax:		
Current tax on profit for the year	₩16,205,843	₩17,602,469
Adjustments in respect of prior years	(51,819)	118,521
Deferred tax:		
Origination and reversal of temporary differences	179,407	(4,051,010)
Deferred income tax charged to equity	(830,703)	134,829
Income tax expenses	<u>₩15,502,728</u>	<u>₩13,804,809</u>

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The income taxes (charged) / credited directly to equity for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Remeasurements of net defined benefit liabilities	₩ 14,240	₩ 256,459
Loss on valuation of available-for-sale financial assets	<u>(844,943)</u>	<u>(121,630)</u>
	<u>₩(830,703)</u>	<u>₩ 134,829</u>

Income taxes related to remeasurements of net defined benefit liabilities and gain (loss) on valuation of available-for-sale financial assets are recognized as other comprehensive income.

Reconciliation between income tax expenses and profit before income tax for the years ended December 31, 2015 and 2014, is as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Profit before tax	<u>₩65,781,583</u>	<u>₩59,601,905</u>
Income tax based on statutory rate	₩15,424,361	₩13,912,526
Tax effects of:		
Expenses not deductible	123,406	49,864
Tax credit	(199,375)	(200,903)
Others	<u>154,336</u>	<u>43,322</u>
Income tax expenses	<u>₩15,502,728</u>	<u>₩13,804,809</u>
Effective tax rate	23.57%	23.16%

The analysis of deferred tax assets and liabilities as of December 31, 2015 and 2014, is as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	₩ 5,084,117	₩ 5,197,174
Deferred tax assets to be recovered after more than 12 months	<u>6,764,678</u>	<u>6,633,775</u>
	<u>11,848,795</u>	<u>11,830,949</u>
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	(978,066)	(774,460)
Deferred tax liabilities to be recovered after more than 12 months	<u>(4,843,608)</u>	<u>(3,027,903)</u>
	<u>(5,821,674)</u>	<u>(3,802,363)</u>
Deferred tax assets, net	<u>₩ 6,027,121</u>	<u>₩ 8,028,586</u>

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Changes in deferred tax assets and liabilities for the years ended December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015				
	Beginning balance	Income (expense)	Other comprehensive income	Changes in consolidation scope	Ending balance
Deferred income tax assets					
Allowance for doubtful accounts	₩ 3,877,028	₩(363,960)	₩ -	₩ -	₩ 3,513,068
Defined benefit obligation	1,091,800	245,909	14,240	-	1,351,949
Long-term employee benefits obligations	47,431	12,330	-	-	59,761
Inventories	116,169	6,263	-	-	122,432
Provisions for returned inventories	16,128	22,853	-	-	38,981
Property and equipment	8,597	3,560	-	1,175	13,332
Intangible assets	1,288,104	253,458	-	-	1,541,562
Available-for-sale financial assets	229,022	(4,248)	-	-	224,774
Accrued expenses	5,038,564	(243,983)	-	-	4,794,581
Others	118,106	30,574	-	39,675	188,355
	<u>11,830,949</u>	<u>(37,244)</u>	<u>14,240</u>	<u>40,850</u>	<u>11,848,795</u>
Deferred income tax liabilities					
Plan assets	(1,091,800)	(242,732)	-	(24,285)	(1,358,818)
Accrued income	(280,025)	169,077	-	(809)	(111,757)
Property and equipment	(792,276)	140,041	-	-	(652,235)
Available-for-sale financial assets	-	-	(844,943)	-	(844,943)
Exclusive management rights	(1,539,364)	587,044	-	(1,835,858)	(2,788,178)
Others	(98,898)	35,111	-	(1,956)	(65,743)
	<u>(3,802,363)</u>	<u>688,540</u>	<u>(844,943)</u>	<u>(1,862,908)</u>	<u>(5,821,674)</u>
Deferred tax assets(liabilities), net	<u>₩ 8,028,586</u>	<u>₩ 651,296</u>	<u>₩(830,703)</u>	<u>₩(1,822,058)</u>	<u>₩ 6,027,121</u>

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(in thousands of Korean won)

	2014			
	Beginning balance	Income (expense)	Other comprehen- sive income	Ending balance
Deferred income tax assets				
Allowance for doubtful accounts	₩ 3,270,640	₩ 606,388	₩ -	₩ 3,877,028
Defined benefit obligation	563,874	271,467	256,459	1,091,800
Long-term employee benefits obligations	33,608	13,823	-	47,431
Inventories	131,612	(15,443)	-	116,169
Provisions for returned inventories	14,238	1,890	-	16,128
Property and equipment	-	8,597	-	8,597
Intangible assets	1,102,077	186,027	-	1,288,104
Deemed dividend	107,076	(107,076)	-	-
Available-for-sale financial assets	342,581	8,071	(121,630)	229,022
Accrued expenses	2,953,612	2,084,952	-	5,038,564
Others	182,480	(64,374)	-	118,106
	<u>8,701,798</u>	<u>2,994,322</u>	<u>134,829</u>	<u>11,830,949</u>
Deferred income tax liabilities				
Plan assets	(563,874)	(527,926)	-	(1,091,800)
Accrued income	(121,444)	(158,581)	-	(280,025)
Property and equipment	(684,576)	(107,700)	-	(792,276)
Gain on disposal of investment in associate	(1,243,832)	1,243,832	-	-
Exclusive management rights	(2,025,000)	485,636	-	(1,539,364)
Others	(85,496)	(13,402)	-	(98,898)
	<u>(4,724,222)</u>	<u>921,859</u>	<u>-</u>	<u>(3,802,363)</u>
Deferred tax assets(liabilities), net	<u>₩ 3,977,576</u>	<u>₩3,916,181</u>	<u>₩ 134,829</u>	<u>₩ 8,028,586</u>

Temporary differences related to investments in subsidiaries that are not recognized as deferred income tax liabilities as of December 31, 2015 and 2014, amount to ₩4,978,771 thousand and ₩2,548,512 thousand, respectively.

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16. Other Liabilities

Details of other current liabilities as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015		2014	
	Current	Non-current	Current	Non-current
Advances from customers	₩22,540,937	₩ -	₩18,192,734	₩ -
Withholdings	237,895	-	164,504	-
Value added tax withheld	3,360,488	-	2,601,724	-
Provisions for returned inventories	161,079	-	66,643	-
Long-term employee benefit obligations ¹	-	246,947	-	195,996
	<u>₩26,300,399</u>	<u>₩ 246,947</u>	<u>₩21,025,605</u>	<u>₩ 195,996</u>

¹ Long-term employee benefit obligations are calculated based on actuarial assumptions.

Changes in provisions for returned inventories for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Beginning balance	₩ 66,643	₩ 62,998
Provisions	94,436	3,645
Ending balance	<u>₩ 161,079</u>	<u>₩ 66,643</u>

Provisions for returned inventories are recognized by calculating reasonable estimation based on actual return rate in the previous years.

17. Capital Stock

The Parent Company's total number of authorized shares is 100,000,000 shares and the total number of common stocks issued is 25,291,705 shares (2014: 25,291,705 shares) with the par value of ₩500 per share.

There are no restricted voting common shares under the Commercial Law as of December 31, 2015.

Changes in capital surplus as of December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Additional paid-in-capital	₩47,481,209	₩47,481,209
Other capital surplus ¹	472,985	-
	<u>₩47,954,194</u>	<u>₩47,481,209</u>

¹ As Starship Entertainment Corp., a subsidiary, newly acquired shares of Kingkong Entertainment Corp. in 2015, the percentage of ownership of the Parent Company changed after issuing new shares. Therefore, there are differences for non-controlling interests in subsidiaries.

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18. Other Components of Equity

Changes in accumulated other comprehensive income as of December 31, 2015 and 2014, are as follows:

(in thousands of Korean won)

	2015			
	Beginning balance	Increase	Reclassification to profit or loss	Ending balance
Gain on valuation of available-for-sale financial assets	₩ -	₩2,646,558	₩ -	₩2,646,558

(in thousands of Korean won)

	2014			
	Beginning balance	Increase (decrease)	Reclassification to profit or loss	Ending balance
Loss on valuation of available-for-sale financial assets	₩(416,555)	₩ -	₩ 416,555	₩ -

Changes in accumulated other comprehensive income represent net of tax amounts.

Other components of equity as of December 31, 2015 and 2014, consist of:

(in thousands of Korean won)

	2015	2014
Gain on disposal of treasury shares	₩ 9,485,675	₩9,485,675
Gain on valuation of available-for-sale financial assets	2,646,558	-
	<u>₩12,132,233</u>	<u>₩9,485,675</u>

19. Retained Earnings

Retained earnings as of December 31, 2015 and 2014, consist of:

(in thousands of Korean won)

	2015	2014
Legal reserves ¹	₩ 3,659,346	₩ 1,861,105
Discretionary reserves	5,478,820	5,478,820
Retained earnings before appropriation	<u>155,519,845</u>	<u>125,194,794</u>
	<u>₩164,658,011</u>	<u>₩132,534,719</u>

¹ The Commercial Code of the Republic of Korea requires the Group 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 capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed in accordance with a resolution of the shareholders' meeting.

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20. Benefits related to employees

Details of benefits related to employees for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Salaries	₩23,993,339	₩25,236,590
Expenses related to defined benefit plans	1,701,840	1,173,192
Employee benefits	2,937,875	2,212,037
Others	1,124,328	866,648
	<u>₩29,757,382</u>	<u>₩29,488,467</u>

21. Other Operating Expense

Other operating expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Travel expenses	₩ 514,186	₩ 324,422
Training expenses	214,081	209,667
Vehicle maintenance expenses	606,845	335,933
Entertainment expenses	694,908	278,571
Utility expenses	274,205	254,143
Supplies expenses	211,458	195,312
Communication expenses	781,652	633,028
Publication expenses	49,389	41,843
Taxes and duties	1,209,267	985,804
Insurance premium	278,735	221,191
Package and freight expenses	75,336	59,302
Service fees	172,716	248,574
Bad debt expenses(reversal)	(979,536)	2,164,635
	<u>₩ 4,103,242</u>	<u>₩ 5,952,425</u>

22. Other Income and Other Expenses

Details of other income for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Gain on foreign currency transaction	₩ 76,437	₩ 24,080
Reversal of allowance for other doubtful accounts	-	44,361
Gain on disposal of property and equipment	6,423	1,086
Miscellaneous income	616,562	225,952
	<u>₩699,422</u>	<u>₩295,479</u>

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Details of other expenses for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Loss on foreign currency transaction	₩ 52,235	₩ 30,654
Impairment loss on intangible assets	1,604,566	1,311,340
Loss on disposal of intangible assets	-	76,500
Loss on abandonment of property and equipment	162	14,382
Other bad debt expenses	2,279	-
Donations	25,255	29,550
Loss on disposal of available-for-sale financial assets	-	1,027,443
Miscellaneous loss	63,018	38,803
	<u>₩1,747,515</u>	<u>₩2,528,672</u>

23. Finance Income and Costs

Details of finance income for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Finance income		
Interest income on deposits	₩3,146,098	₩3,230,435
Interest income on financial assets measured at amortized costs	299,822	276,869
Gain on insurance settlements	664	-
Dividend income on available-for-sale financial assets	130,000	-
	<u>₩3,576,584</u>	<u>₩3,507,304</u>

Details of finance costs for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Finance costs		
Interest expense	₩168,689	₩164,878

24. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share for the years ended December 31, 2015 and 2014, are as follows:

<i>(in Korean won)</i>	2015	2014
Profit attributable to owners of the Parent Company	₩ 50,142,939,000	₩ 45,544,917,160
Weighted average number of ordinary shares outstanding ¹	<u>25,291,705 shares</u>	<u>25,291,705 shares</u>
Basic earnings per share	<u>₩ 1,983</u>	<u>₩ 1,801</u>

¹ Weighted average number of ordinary shares outstanding is identical to the number of shares issued.

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The Group did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

25. Dividends

Dividends for the year ended December 31, 2014, amounting to ₩17,982,402 thousand were paid in April 2015.

26. Contingencies and Commitments

As of December 31, 2015, there are no commitments with financial institutions and others.

As of December 31, 2015, there are no guarantees provided by other parties.

In 2013, long-term other payables incurred from the acquisition of subsidiary. The Group agreed to pay ₩800,000 thousand every year on an installment basis for five years.

In 2015, ₩814,800 thousand of long-term other payables incurred from the acquisition of subsidiary. The Group agreed to pay by installment over five times whenever performance conditions in contracts are met.

As of December 31, 2015, the Group is involved in nine lawsuits, including claims for cancellation of corrective action, and the ultimate outcome of these cases cannot yet be determined.

27. Operating Segment Information

The Group's each operating segments are represented by legal entities that provide independent services and goods, and details of goods generating revenue and key customers by each segments are as follows:

	Goods	Key customers
Digital sound segment	Digital music and sounds	Users of digital sound services or personal users
Record segment	Records	Wholesale dealers of records

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Financial information by each operating segments as of and for the years ended December 31, 2015 and 2014, is as follows:

(in thousands of Korean won)

	Digital sound segment		Record segment		Total	
	2015	2014	2015	2014	2015	2014
Operating revenue	₩336,291,238	₩304,258,107	₩21,349,418	₩19,017,837	₩357,640,656	₩323,275,944
Operating profit	61,817,649	57,401,991	1,604,133	1,090,680	63,421,782	58,492,671
Pre-tax segment profit	64,047,570	58,453,057	1,734,013	1,148,848	65,781,583	59,601,905
After-tax segment profit	48,964,335	44,928,195	1,314,520	868,900	50,278,855	45,797,096
Segment assets	346,877,572	290,864,716	15,914,478	13,020,648	362,792,050	303,885,365
Segment liabilities	112,568,466	93,649,625	4,246,093	4,405,590	116,814,559	98,055,215

Segment information by geographical area for the years ended December 31, 2015 and 2014, is as follows:

(in thousands of Korean won)

	Domestic		Foreign		Total	
	2015	2014	2015	2014	2015	2014
Operating revenue	₩346,214,922	₩317,305,040	₩11,425,734	₩5,970,904	₩357,640,656	₩323,275,944

28. Related Party Transactions

As of December 31, 2015 and 2014, the immediate parent company is (SIH) Star Invest Holdings Limited (percentage of ownership: 61.4%) and the ultimate parent company is Caribbean Sands Holdings.

There are no sales and purchase transactions with related parties for the years ended December 31, 2015 and 2014.

There are no year-end balances of receivables and payables arising from sales and purchases of goods and services as of December 31, 2015 and 2014.

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Key management includes executive directors and members of the executive committee. The compensation paid or payable to key management for employee services for the years ended December 31, 2015 and 2014, consists of:

<i>(in thousands of Korean won)</i>	2015	2014
Salaries	₩ 1,016,066	₩ 965,179
Expenses related to defined benefit plans	<u>76,307</u>	<u>105,995</u>
	<u>₩1,092,373</u>	<u>₩1,071,174</u>

There are no collateral and payment guarantees provided by the Group or related parties as of December 31, 2015.

29. Non-cash Transactions

Significant transactions not affecting cash flows for the years ended December 31, 2015 and 2014, are as follows:

<i>(in thousands of Korean won)</i>	2015	2014
Increase in (long-term) other payables due to acquisition of investments in subsidiaries	₩2,210,000	₩ -
Change in other payables for acquisition of property and equipment	29,887	-

30. Business Combination

On May 20, 2015, Starship Entertainment Corp., a subsidiary, acquired 100% of the capital stock and obtained control of Kingkong Entertainment Corp. that is engaged in entertainer management business. In addition, on November 25, 2015, the Parent Company acquired 70% of the capital stock and obtained control of A-Cube Entertainment Corp. that is engaged in record production and management business. As a result of these acquisitions, the Group is expected to enhance competitiveness by expanding production business and generating synergy effect.

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The following table summarizes the consideration paid for Kingkong Entertainment Corp. and the amounts of assets acquired and liabilities assumed at the acquisition date:

<i>(in thousands of Korean won)</i>	Amount
Consideration:	
Cash and stocks	₩ 4,900,000
Other payables	<u>751,556</u>
Total consideration	<u>₩ 5,651,556</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	₩ 1,131,064
Trade receivables	354,804
Financial assets at fair value through profit or loss	100,000
Available-for-sale financial assets	400,000
Property and equipment and intangible assets	1,882,927
Other assets	934,723
Advances from customers	(1,062,060)
Other liabilities	<u>(1,343,527)</u>
Total identifiable net assets	<u>₩ 2,397,931</u>

The following table summarizes the consideration paid for A-Cube Entertainment Corp. and the amounts of assets acquired and liabilities assumed at the acquisition date:

<i>(in thousands of Korean won)</i>	Amount
Consideration:	
Cash and stocks	₩11,190,000
Other payables	<u>1,287,023</u>
Total consideration	<u>₩12,477,023</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	₩ 6,950,994
Trade receivables	471,651
Property and equipment and intangible assets	6,846,285
Other assets	2,144,252
Advances from customers	(2,179,892)
Other liabilities	<u>(2,519,766)</u>
Total identifiable net assets	<u>₩11,813,524</u>

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Estimation of Fair value

Valuation technique used to estimate fair value of acquired significant assets is as follows:

Acquired asset	Valuation technique
Intangible asset (exclusive management rights)	Multi-period Excess Earnings Methods

Goodwill

Goodwill arising from business combination with Kingkong Entertainment Corp. is as follows:

<i>(in thousands of Korean won)</i>	Amount
Total consideration	₩ 5,651,556
Fair value of identifiable net assets	<u>(2,397,931)</u>
Goodwill	<u>₩ 3,253,625</u>

Goodwill arising from business combination with A-Cube Entertainment Corp. is as follows:

<i>(in thousands of Korean won)</i>	Amount
Total consideration	₩ 12,477,023
Non-controlling interests	3,544,057
Fair value of identifiable net assets	<u>(11,813,524)</u>
Goodwill	<u>₩ 4,207,556</u>

31. Subsequent Events

On January 11, 2016, the Share Purchase Agreement and Share Subscription Agreement were entered into that (SIH) Star Invest Holdings Limited, the largest shareholder of the Group, shall dispose certain of its shares to Kakao Corp. for cash, contribute the residual shares to Kakao Corp. and receive new shares issued by Kakao Corp. in return.

Under the shareholders agreement between (SIH) Star Invest Holdings Limited and SK Planet Co., Ltd., a major shareholder of the Group, SK Planet Co., Ltd., has tag-along rights with which it can participate in the sale of (SIH) Star Invest Holdings Limited's shares to a third party upon the terms and conditions no less favorable than those applicable to (SIH) Star Invest Holdings Limited. SK Planet Co., Ltd. decided to exercise tag-along rights on January 21, 2016.

As a result, the largest shareholder of the Parent Company is expected to change from (SIH) Star Invest Holdings Limited to Kakao Corp. (percentage of ownership: 76.40%) upon the completion of the above transactions.

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