IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS WITH ADDRESSES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the offering circular (the "**offering circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering circular. In accessing the following offering circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view the following offering circular or make an investment decision with respect to the securities, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing the following offering circular, you shall be deemed to have represented to us that (1) you are not a U.S. person nor are you acting on behalf of a U.S. person, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and, to the extent you purchase the securities described in the following offering circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to the delivery of such offering circular and any amendments and supplements thereto by electronic transmission.

You are reminded that the following offering circular has been delivered to you on the basis that you are a person into whose possession the following offering circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the following offering circular to any other person. If this is not the case, you must return this offering circular to us immediately.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriter or any affiliate of the underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriter or such affiliate on behalf of the issuer in such jurisdiction.

The following offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the issuer or the guarantor or Mizuho Securities Asia Limited, Société Générale or Standard Chartered Bank (collectively, the "**Managers**"), or any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from the Managers.

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

Offering Circular dated July 31, 2018

LOTTE PROPERTY & DEVELOPMENT CO., LTD.

US$200,000,000 Guaranteed Senior Unsecured Sustainability Notes due 2021
Unconditionally and Irrevocably Guaranteed by

KOOKMIN BANK

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

Issue Price: 100.000 per cent.

The US$200,000,000 Guaranteed Senior Unsecured Sustainability Notes due 2021 (the "**Notes**") will be issued by Lotte Property & Development Co., Ltd. (the "**Issuer**") and unconditionally and irrevocably guaranteed by Kookmin Bank (the "**Guarantor**" or the "**Bank**," and such guarantee, the "**Guarantee**"). The Notes constitute direct, general and unconditional obligations of the Issuer which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for such as may be preferred by mandatory provision of applicable law). The Guarantee relating to the Notes constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law).

The Notes will bear interest from and including August 7, 2018 (the "**Issue Date**") at a floating rate of interest determined pursuant to "*Terms and Conditions of the Notes — Interest — Rate of Interest*" reflecting three-month US$ LIBOR plus a margin of 0.925 per cent. Interest will be payable quarterly in arrear on February 7, May 7, August 7, and November 7 of each year (each an "**Interest Payment Date**," with the first Interest Payment Date falling on November 7, 2018 in respect of the period from and including the Issue Date to but excluding such Interest Payment Date).

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their outstanding principal amount on the Interest Payment Date falling on, or nearest to, August 7, 2021 (the "**Maturity Date**"). The Notes are subject to redemption in whole, but not in part, at their outstanding principal amount together with any accrued but unpaid interest thereon, in the event of certain changes to tax laws. See "*Terms and Conditions of the Notes — Redemption.*"

The Notes are being issued by the Issuer as "Sustainability Bonds" under the Sustainability Bond Framework. See "*Sustainability Bond Framework.*" The net proceeds from the issuance and sale of the Notes will be used to finance or refinance, in part or in full, new and/or existing Eligible Assets or Eligible Projects (as defined in the Sustainability Bond Framework). See "*Use of Proceeds.*"

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 10.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for the listing and quotation of the Notes 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 (the "**Offering Circular**"). Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Guarantor or the Notes.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S ("**Regulation S**") under the Securities Act), unless pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the Guarantee and the distribution of this Offering Circular, see "*Subscription and Sale.*"

The Notes are expected to be rated "Aa3" by Moody's Investors Service ("**Moody's**"). Such rating of the Notes does not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organization. Such rating should be evaluated independently of any other rating of the Notes, the Issuer's or Guarantor's other securities or the Issuer or Guarantor.

The Notes will initially be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about August 7, 2018 with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators and Joint Bookrunners

Mizuho Securities | **Société Générale Corporate & Investment Banking** | **Standard Chartered Bank**

Co-Manager

KB Securities Hong Kong Limited

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You should rely only on the information contained in this Offering Circular. None of the Issuer, the Guarantor 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 Notes. If anyone provides you with different or inconsistent information, you should not rely on it. The contents of the Issuer's or the Guarantor's website do not form any part of this Offering Circular.

You should assume the information in this Offering Circular is accurate only as of the date of this Offering Circular or such other date as specified herein. The business, financial condition, results of operations and prospects of the Issuer or the Guarantor may have changed since that date. Neither the delivery of this Offering Circular nor any sale of the Notes made in connection with this Offering Circular will, under any circumstances, constitute a representation or create any implication that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or that there have been no changes in the affairs of the Issuer or the Guarantor since the date of this Offering Circular. Statements contained in this Offering Circular as to the contents of any contract or other documents referred to in this Offering Circular may not set forth all of the terms and conditions of such contracts or other documents.

In making an investment decision, prospective investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes and the Guarantee, including the merits and risks involved. Neither the Issuer nor the Guarantor is making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. This Offering Circular should not be considered as a recommendation or constituting an invitation or offer by the Issuer, the Guarantor or the Managers that any recipient of this Offering Circular should purchase the Notes. You should not construe the contents of this Offering Circular as legal, business, accounting or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

The Issuer and the Guarantor have furnished the information contained in this Offering Circular. No representation, undertaking or warranty, express or implied, is made by the Managers or any of their respective affiliates 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 or any of their respective affiliates or advisers. The Managers assume no responsibility for the accuracy, adequacy, reasonableness or completeness of any of the information contained in this Offering Circular or any other information (financial, legal or otherwise) provided by the Issuer or the Guarantor in connection with the issue or distribution of the Notes, the issue of the Guarantee or the future performance of the Notes or the Guarantee. To the fullest extent permitted by law, none of the Managers accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Managers or on its behalf in connection with the Issuer, the Guarantor, the Guarantee or the issue and offering of the Notes. The Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers or any of their affiliates or advisers in connection with investigation of the accuracy of such information or such person's investment decisions.

This Offering Circular may only be used where it is legal to sell the Notes. None of the Issuer, the Guarantor and the Managers is making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. 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. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come must inform themselves about and observe these relevant restrictions. No action is being taken in any jurisdiction to permit an offering to the general public of the Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

This Offering Circular is confidential. This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Notes described in this Offering Circular. This Offering Circular is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to subscribe for, or otherwise acquire, the Notes. 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 or use of such information for any purpose other than making an investment decision, without the prior written consent of the Issuer and the Guarantor, is prohibited. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

The Notes are subject to restrictions on transferability and may not be transferred or resold except as permitted under applicable U.S. federal and state Notes laws pursuant to a registration statement or an exemption from registration. Any investor who purchases the Notes will be deemed to have made acknowledgements, representations, warranties and agreements intended to restrict the resale or other transfer of the Notes, as set forth under "*Subscription and Sale — Transfer Restrictions*." 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.

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

In connection with this offering, any of the Managers appointed and acting in its capacity as stabilization manager (the "Stabilization Manager") (or person(s) acting on its behalf) may, subject to all applicable laws, rules and regulations, over-allot Notes or effect transactions that stabilize or maintain the market price of the Notes at a higher level than the Notes might otherwise achieve in the open market for a limited period of time after the Issue Date. However, there is no assurance that the Stabilization Manager (or person(s) acting on its behalf) will undertake stabilization action. 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*."

ENFORCEABILITY OF CIVIL LIABILITIES

The Guarantor is a corporation with limited liability organized under the laws of Korea. All of the officers and directors of the Guarantor named in this Offering Circular reside in Korea, and all or a substantial portion of the assets of the Guarantor and of such officers and directors are located outside the United States.

The Issuer is a corporation with limited liability organized under the laws of Korea. All of the officers and directors of the Issuer named in this Offering Circular reside in Korea, and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States.

As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or the Issuer or the Guarantor in U.S. courts judgments predicated upon civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws.

AVAILABLE INFORMATION

Copies of the Fiscal Agency Agreement will be on file and available for inspection at the specified office of the Fiscal Agent (as defined in this Offering Circular) upon prior written request during normal office hours. In accordance with the Notes and the Fiscal Agency Agreement, the Fiscal Agent also will make available for inspection by holders of the Notes or, in certain cases, arrange for the mailing to such holders, certain documents or communications received from the Issuer or the Guarantor, as the case may be. See "*Terms and Conditions of the Notes*."

PRESENTATION OF FINANCIAL INFORMATION

Each of the Issuer and the Guarantor maintains its financial books and records and prepares its financial statements in Won in accordance with International Financial Reporting Standards as adopted by Korea ("**Korean IFRS**"). Unless otherwise stated, the financial data of the Guarantor contained in this Offering Circular as of and for the years ended December 31, 2015, 2016 and 2017 are derived from the Guarantor's audited consolidated financial statements included in this Offering Circular, which have been prepared in accordance with Korean IFRS, and the financial data of the Guarantor contained in this Offering Circular as of and for the three months ended March 31, 2017 and 2018 are derived from the Guarantor's unaudited interim consolidated financial statements included in this Offering Circular, which have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. Unless otherwise stated, the financial data of the Issuer contained in this Offering Circular as of and for the years ended December 31, 2016 and 2017 are derived from the Issuer's audited financial statements included in this Offering Circular, which have been prepared in accordance with Korean IFRS.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references to the "**Issuer**" in this Offering Circular are references to Lotte Property & Development Co., Ltd. or Lotte Property & Development Co., Ltd. and its consolidated subsidiaries collectively, as required or as indicated by the context. All references to the "**Bank**" or the "**Guarantor**" in this Offering Circular are references to Kookmin Bank or Kookmin Bank and its consolidated subsidiaries collectively, as required or as indicated by the context. All references to the "**Lotte Group**" are to a group of companies affiliated with Lotte Property & Development Co., Ltd. The Lotte Group is not a legal entity but a reference to a group of such affiliated companies for the purposes of the Monopoly Regulation and Fair Trade Act of Korea.

All references to "**Korea**" contained in this Offering Circular are references to The Republic of Korea. All references to the "**Government**" are references to the government of Korea. All references to "**U.S.**" and the "**United States**" are references to the United States of America. All references to "**Singapore**" are references to the Republic of Singapore. In this Offering Circular, all references to "**Won**" or "**₩**" are to the lawful currency of Korea, all references to "**U.S. dollar**" or "**US$**" are to the lawful currency of the United States, all references to "**Euro**" are to the lawful currency of the European Union, all references to "**Japanese yen**" are to the lawful currency of Japan and all references to "**Kazakhstan Tenge**" or "**Tenge**" are to the lawful currency of the Republic of Kazakhstan. 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 dollars, rounded to the nearest tenth of one Won (the "**Market Average Exchange Rate**") on December 28, 2017, which was ₩1,071.4 to US$1.00. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. For historical information regarding the rate of exchange between the Won and the U.S. dollar, see "*Exchange Rates*." In this Offering Circular, where information has been prepared in thousands, millions or billion billions of units, amounts may have been rounded up or down. Accordingly, actual numbers may differ from those contained herein due to rounding. All discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain "forward-looking statements" that are based on the Issuer's or the Guarantor's current expectations, assumptions, estimates and projections about the industries that the Issuer and Guarantor are in. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipate", "believe", "estimate", "expect", "intend", "target", "seek", "aim", "contemplate", "project", "plan", "goal", "should" and similar expressions or the negatives thereof. Those statements include, among other things, the discussions of the Issuer's and the Guarantor's business strategy and expectations concerning their market position, future operations, cash flows, margins, profitability, liquidity and capital resources. Reliance on any forward-looking statement involves risks and uncertainties, and although the Issuer and the Guarantor believe that the assumptions on which the forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the "*Risk Factors*." In light of these and other uncertainties, you should not conclude that the Issuer or the Guarantor will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. Neither the Issuer nor the Guarantor will undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances, except as required by law.

SUMMARY

*The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular (the "**Conditions**"). Terms used and not otherwise defined in this summary have the meaning given to them in the Conditions.*

Issuer	Lotte Property & Development Co., Ltd., a corporation with limited liability established under the laws of Korea.
Notes	US$200,000,000 Guaranteed Senior Unsecured Sustainability Notes due 2021.
Guarantor	Kookmin Bank, a bank incorporated under the laws of Korea.
Guarantee	The Guarantor has given for the benefit of the Holders of the Notes an unconditional and irrevocable guarantee for the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes as and when the same shall become due according to the Conditions. The Guarantee relating to the Notes constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law). The Guarantee will remain in full effect until the earlier of (i) when all of the obligations in respect of the Notes shall have been paid in full and (ii) the Maturity Date.
Issue Price	100.000 per cent.
Issue Date	August 7, 2018.
Interest Commencement Date	August 7, 2018.
Interest Payment Dates	February 7, May 7, August 7 and November 7 of each year, commencing on November 7, 2018 and up to and including August 7, 2021, each subject to the modified following business day convention.
Rate of Interest	Three-month US$ LIBOR + 0.925 per cent.
Day Count Fraction	Actual/360.
Maturity Date	August 7, 2021.
Form and Denomination	The Notes will be issued in registered form in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. Upon issue, the Global Certificate will be deposited with, and registered in the name of a nominee of, a common depositary for, Euroclear and Clearstream.

Redemption at Maturity	Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their outstanding principal amount on the Interest Payment Date falling on, or nearest to, the Maturity Date.
Redemption for Tax Reasons	The Issuer may redeem the Notes in whole, but not in part, at their outstanding principal amount together with any accrued but unpaid interest thereon, in the event that the Issuer is obliged to pay Additional Amounts provided in Condition 8.1.
Taxation	All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Korea, unless the withholding or deduction of such taxes is required by law. In that event, the Issuer will pay such Additional Amounts as may be necessary in order that the net amounts received by the Holders after the withholding or deduction (including any withholding or deduction in respect of such payment of Additional Amounts) will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of the withholding or deduction.
Negative Pledge	The Notes will contain a negative pledge provision given by the Issuer as described in Condition 3.2.
Cross Acceleration	The Notes will contain a cross-acceleration provision relating to indebtedness for money borrowed of the Issuer as described in Condition 11.3.
Status of the Notes	The Notes constitute direct, general and unconditional obligations of the Issuer which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for such as may be preferred by mandatory provision of applicable law).
Governing Law	The Notes and the Guarantee are governed by, and will be construed in accordance with, the laws of the State of New York.
Rating	The Notes are expected to be rated "Aa3" by Moody's. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by the assigning rating organization.
Fiscal Agent	Citicorp International Limited.
Paying Agent, Transfer Agent and Calculation Agent	Citibank, N.A., London Branch.
Registrar	Citigroup Global Markets Europe AG.

Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. There can be no assurance, however, that the Issuer will be admitted to the Official List of, or the Notes will be listed and quoted on, the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of SGD200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US$200,000.
Use of Proceeds	The Issuer expects to use the net proceeds from the Offering to finance or refinance, in part or in full, new and/or existing Eligible Assets or Eligible Projects (as defined in the Sustainability Bond Framework). See "*Use of Proceeds*."
Sustainability Bonds	The Notes are being issued by the Issuer as "Sustainability Bonds" under the Sustainability Bond Framework. See "*Sustainability Bond Framework*."
Selling Restrictions	The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. For additional selling restrictions in relation to other jurisdictions, see "*Subscription and Sale*."
Clearance and Settlement	The Notes have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS1852560819 Common Code: 185256081 The Legal Entity Identifier (LEI) of the Issuer is 988400OLPNHXNWSTMB93.

RISK FACTORS

Investing in the Notes involves risks and uncertainties. Prospective purchasers of the Notes 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 Notes. The risks described below are not the only ones that may be relevant to the Issuer, the Guarantor, the trading price of the Notes or the value of the Guarantee.

Risks Relating to the Bank's Retail Credit Portfolio

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 ₩115,811 billion as of December 31, 2015 to ₩123,687 billion as of December 31, 2016 and to ₩130,303 billion as of December 31, 2017. As of December 31, 2017, on a separate basis, the Bank's retail loans represented 51.8 per cent. 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, increased from ₩28,088 billion as of December 31, 2015 to ₩34,870 billion as of December 31, 2017; as a percentage of total outstanding retail loans on a separate basis, such balance increased from 24.3 per cent. as of December 31, 2015 to 26.8 per cent. as of December 31, 2017. 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 fluctuating 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 ₩249 billion as of December 31, 2015 to ₩192 billion as of December 31, 2016 and ₩162 billion as of December 31, 2017. However, 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, economic difficulties in Korea that hurt consumers could result in a deterioration in the credit quality of the Bank's retail loan portfolio. For example, a rise in unemployment, an increase in interest rates or a decline in real estate prices in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. See "*— Risks Relating to Korea — Unfavorable financial and economic developments in Korea may have an adverse effect on the Bank*." 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 addition, the Bank is exposed to changes in regulations and policies on retail lending by the Korean government (the "**Government**"), which may adopt measures to restrict retail lending or encourage financial institutions to provide financial support to certain types of retail borrowers. In 2014 and 2015, the Government implemented several measures to encourage consumer spending and revive the housing market in Korea, including loosening regulations on mortgage lending, which contributed to an increase in the Bank's portfolio of retail loans. However, the Government introduced measures in the second half of 2016 and 2017 to tighten regulations on mortgage lending and housing subscription in response to the rapid growth in consumer debt and concerns over speculative investments in real estate in certain areas. A decrease in housing prices as a result of the implementation of such measures, together with the high level of consumer debt and rising interest rate levels, could result in declines in consumer spending and reduced economic growth, which may lead to increases in delinquency levels of the Bank's retail loan portfolio.

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission (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, among others. 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 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.

Risks Relating to the Bank's Small- and Medium-Sized Enterprise ("SME") Loan Portfolio

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 ₩77,005 billion as of December 31, 2015 to ₩90,265 billion as of December 31, 2017. During that period, non-performing loans (defined as those loans that are past due by 90 days or more) to SMEs decreased from ₩254 billion to ₩148 billion, and the non-performing loan ratio for such loans decreased from 0.3 per cent. to 0.2 per cent. However, the Bank's non-performing loans and non-performing loan ratio may increase in the future. According to data compiled by the Financial Supervisory Service (the "**FSS**"), the delinquency ratio for Won currency loans by Korean commercial banks to SMEs was 0.5 per cent. as of December 31, 2017. 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 0.5 per cent. as of December 31, 2015 to 0.2 per cent. as of December 31, 2017. However, the Bank's delinquency ratio for such Won currency loans may increase in the future.

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 SME borrowers. For example, the Government 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, 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 2018 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.

A substantial part of the Bank's SME lending comprises loans to "small office/home office" customers ("**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 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.

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 shipping, 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, as well as aggressive marketing and competition among banks to lend to this segment, may lead to a deterioration in the asset quality of the Bank's loans to this segment in the future. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have an adverse impact 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, 2017, on a separate basis, the Bank had loans outstanding to construction, shipbuilding and shipping companies (many of which are SMEs) in the amount of ₩2,526 billion, ₩416 billion and ₩307 billion, or 1.0 per cent., 0.2 per cent. and 0.1 per cent. 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, confirmed guarantees of ₩335 billion of for construction companies, ₩690 billion for shipbuilding companies and ₩74 billion for shipping companies as of December 31, 2017) 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.

Although the construction industry in Korea has shown signs of recovery since 2015, excessive investment in residential property development projects, the recent strengthening of mortgage lending regulations by the Government, stagnation of real property prices and reduced demand for residential property in areas outside of Seoul are expected to continue to negatively impact the construction industry. The shipbuilding industry in Korea has experienced a severe downturn in recent years reflecting a significant decrease in ship orders, primarily due to oversupply. Although ship orders have started to increase again, the shipbuilding industry has yet to recover fully. 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 file for bankruptcy or 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 2017, two companies with outstanding credit exposures of ₩50 billion or more (one of which was a construction company and the other was a shipbuilding company) 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 such companies declines further, the Bank may incur substantial additional provisions (including in connection with restructurings of such companies) and charge-offs, which could adversely impact its results of operations and financial condition. See "*— Risks Relating to the Bank's Large Corporate Loan Portfolio — 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*." 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 "*— Other Risks Relating to the Bank's Business — 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.*"

Risks Relating to the Bank's Strategy

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.

Risks Relating to the Bank's Competition

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 banking industry has been and is likely to remain intense. Some of the banks 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 introduction of Internet-only banks in Korea is expected to increase competition in the Korean banking industry. Internet-only banks operate without branches and conduct most of their operations through electronic means, which enables them to minimize costs and offer customers higher interest rates on deposits or lower lending rates. In April 2017, K Bank, the first Internet-only bank in Korea, commenced operations. Kakao Bank, another Internet-only bank, in which the Bank holds a 10 per cent. equity interest, commenced operations in July 2017.

Moreover, 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. Moreover, in March 2016, the FSC introduced an individual savings account ("**ISA**") scheme in Korea, which enables individuals to efficiently manage a wide range of retail investment vehicles, including cash deposits, funds and securities investment products, from a single integrated account with one financial institution and offers tax benefits on investment returns. Since the Government-backed scheme allows only one ISA per person, financial institutions have been competing to retain existing customers and attract new customers since the launch of the ISA scheme. Over 30 financial institutions, including banks, securities companies and insurance companies, have registered with the FSC to sell their ISA products and competition among these financial institutions is expected to remain intense.

Furthermore, a number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in 2015. In addition, 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 Korean 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 also believes that foreign financial institutions, many of which have greater experience and resources than the Bank, may seek to compete with the Bank in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. 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.

Risks Relating to the Bank's Large Corporate Loan Portfolio

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, 2017 on a separate basis, 14 were to companies that were members of the 36 largest highly-indebted business groups among *chaebols* in Korea designated as such by the FSS based on their outstanding exposures. As of that date, on a separate basis, the total amount of the Bank's exposures to such 36 largest highly-indebted business groups among *chaebols* was ₩23,389 billion, or 7.7 per cent. of the Bank's total exposures. If the credit quality of the Bank's exposures to *chaebols* declines as a result of financial difficulties they experience or for other reasons, the Bank could require substantial additional loan loss provisions, which would hurt its results of operations and financial condition. See "*Assets and Liabilities of the Bank o Loan Portfolio Exposure to Chaebols.*"

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, 2017, on a separate basis, the Bank's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩504 billion or 0.2 per cent. of the Bank's total loans and guarantees, most of which were classified as impaired. As of the same date, on a separate basis, the Bank's allowances for credit losses on these loans and guarantees amounted to ₩281 billion, or 55.8 per cent. 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 or restructuring, 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.

In particular, as of December 31, 2017, on a separate basis, the Bank had ₩101 billion of outstanding loans and ₩253 billion of outstanding guarantees (mainly in the form of refund guarantees relating to shipbuilding contracts), to Daewoo Shipbuilding & Marine Engineering Co., Ltd. (DSME), which has been pursuing a voluntary restructuring program. In April 2017, the creditors of DSME agreed on a plan to provide additional financial support to DSME in connection with its voluntary restructuring program, under which Korea Development Bank and the Export-Import Bank of Korea would provide ₩2.9 trillion of new loans to DSME, on the condition that DSME's other creditors and bondholders agree to a ₩2.9 trillion debt-to-equity swap. The financial support plan required the Korean commercial bank creditors of DSME (including the Bank) to swap 80 per cent. of their outstanding unsecured loans into equity of DSME and extend the maturity of the remaining loans for a period of three years. The financial support plan also requires DSME's creditors (including the Bank) to provide additional refund guarantees in connection with future shipbuilding contracts of DSME. The implementation of the financial support plan for DSME has required and may continue to require the Bank to increase its loan loss provisions and recognize write-offs and impairment losses with respect to its exposures to DSME and may therefore have a material adverse impact on the Bank's results of operations and financial condition. Furthermore, there is no guarantee that the plan will be successful in ensuring the financial viability of DSME.

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, 2017, the Bank's loans and guarantees to its 20 largest borrowers totaled ₩7,762 billion and accounted for 3.0 per cent. of the Bank's total loans and guarantees. As of that date, the Bank's single largest corporate credit exposure was to Samsung Electronics Co., Ltd., to which the Bank had outstanding loans and guarantees (the majority of which was in the form of loans in foreign currencies) of ₩1,530 billion, representing 0.6 per cent. of the Bank's total loans and guarantees. Any deterioration in the financial condition of Samsung Electronics Co., Ltd. or the Bank's other large 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.

Other Risks Relating to the Bank's Business

Unfavorable changes 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 Latin America and Europe;
- the slowdown of economic growth in China and other major emerging market economies;
- interest rate fluctuations as well as the possibility of further 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, including Syria, Iraq and Yemen, as well as the United Kingdom's decision in June 2016 to exit from the European Union ("**Brexit**").

In addition, the global economy faces a number of uncertainties, including due to the possibility of higher inflation pressures in the United States and elsewhere, which may lead to corrections in the global financial markets, and credit risks arising from yield-seeking investors increasing their exposure to lower-rated corporate and sovereign borrowers, as well as escalations in trade protectionism globally and geopolitical tensions in East Asia and the Middle East. In light of the high level of interdependence of the global economy, unfavorable changes in the global financial markets, including as a result of any of the foregoing developments, could have a material adverse effect on the Korean economy and financial markets, 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 the 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. 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 changes in global and Korean economic conditions, there has been 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.

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 Bank — Legal Proceedings*."

The Bank is unable to predict the outcome 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 broad 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 "*Risk Management of the Bank*." 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.

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

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

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 per cent. to 80 per cent. 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 per cent. to 60 per cent. of the appraised value of collateral) and to periodically re-appraise its collateral, a downturn in the real estate market in Korea may result in declines in the value of the collateral securing the Bank's mortgage and home equity loans. If collateral values decline 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 book value of debt securities the Bank holds at the time of any sale of such securities.

As of December 31, 2017, the Bank held debt securities issued by Korean companies and financial institutions (other than those issued by the Bank of Korea (the "**BOK**"), Korea Housing Finance Corporation, Korea Development Bank, Industrial Bank of Korea, the Export-Import Bank of Korea, Korea Deposit Insurance Corporation (the "**KDIC**") and the Korea Land & Housing Corporation, which are government-owned or -controlled enterprises or financial institutions) with a total carrying amount of ₩8,783 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 Financial Investment 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 book 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, 2017, the Bank had ₩107 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 2015, 2016 and 2017. 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 cyber security 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 cyber security 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.

The application of Korean IFRS 1109 *Financial Instruments* commencing in 2018 may adversely impact our reported results of operations and financial condition.

Korean IFRS 1109 *Financial Instruments*, which is based on International Financial Reporting Standard 9 *Financial Instruments* issued by the International Accounting Standard Board in July 2014, is a new accounting standard aimed at improving and simplifying the accounting treatment of financial instruments and is effective for annual periods beginning on or after January 1, 2018. Korean IFRS 1109 replaces Korean IFRS 1039 *Financial Instruments: Recognition and Measurement* and requires all financial assets to be classified and measured on the basis of an entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model is introduced which requires recording of allowance for credit losses based on expected losses instead of incurred losses, and recognition of any subsequent changes in expected credit losses in profit or loss. Also, hedge accounting rules are amended to allow more hedging instruments and hedged items to qualify for hedge accounting. The impact on the Bank's financial statements due to the application of Korean IFRS 1109 depends on judgments made by the Bank in applying the new standard, the nature of financial instruments held by the Bank and macroeconomic variables. See Note 2.1 of the notes to the Bank's annual consolidated financial statements included elsewhere in this Offering Circular.

The Bank has applied Korean IFRS 1109 in its interim consolidated financial statements as of and for the three months ended March 31, 2018 included elsewhere in this Offering Circular. As permitted by the transition rules of Korean IFRS 1109, the Bank's comparative interim consolidated financial statements for the three months ended March 31, 2017 included elsewhere in this Offering Circular have not been restated to retroactively apply Korean IFRS 1109. For information regarding the impact of the application of Korean IFRS 1109 to the Bank's consolidated financial statements, see Notes 2.1 and 42 of the notes to the Bank's interim consolidated financial statements included elsewhere in this Offering Circular.

Among other things, the application of Korean IFRS 1109 resulted in a one-off increase in the Bank's allowance for credit losses (and a corresponding decrease within the Bank's retained earnings) in the opening balances as of January 1, 2018 as compared to the closing balances as of December 31, 2017 for its consolidated statement of financial position. The application of Korean IFRS 1109 may continue to result in higher impairment loss allowances that are recognized earlier, on a more forward-looking basis and on a broader scope of financial instruments than was the case under Korean IFRS 1039 and, as a result, may have a material adverse effect on the Bank's reported results of operations and financial condition. In addition, the move from incurred to expected credit losses will have the potential to impact the Bank's performance under stressed economic conditions or regulatory stress tests. Measurement requires increased complexity in the Bank's impairment modeling as it involves a greater degree of management judgment with respect to forward-looking information. The Bank expects that impairment charges will tend to be more volatile as a result.

Risks Relating to the Bank's Liquidity and Capital Management

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 the past. The BOK reduced its policy rate to 2.00 per cent. 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. The BOK further reduced its policy rate to 1.50 per cent. in 2015 and again to an unprecedented 1.25 per cent. in June 2016 amid deflationary concerns and interest rate cuts by central banks around the world. However, in November 2017, the BOK increased its policy rate to 1.50 per cent. in light of improved growth prospects in Korea and rising interest rate levels globally. All else being equal, further increases 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 retail borrowers. 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. In particular, 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, 2017, approximately 94.9 per cent. 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, as of December 31, 2017, the Bank was required to maintain a total minimum common equity Tier I capital adequacy ratio of 6.25 per cent., Tier I capital adequacy ratio of 7.75 per cent. and combined Tier I and Tier II capital adequacy ratio of 9.75 per cent., on a consolidated basis (including applicable additional capital buffers and requirements as described below). As of December 31, 2017, the Bank's common equity Tier I capital, Tier I capital and combined Tier I and Tier II capital adequacy ratios were 14.86 per cent., 14.86 per cent. and 16.01 per cent., 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) to risk-weighted assets of 3.5 per cent. and Tier I capital to risk-weighted assets of 4.5 per cent. from December 1, 2013, which minimum ratios were increased to 4.0 per cent. and 5.5 per cent., respectively, from January 1, 2014 and increased further to 4.5 per cent. and 6.0 per cent., 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 per cent., which remains unchanged. The amended regulations also require an additional capital conservation buffer of 1.25 per cent. in 2017 and 1.875 per cent. in 2018, with such buffer to increase to 2.5 per cent. by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5 per cent., which is determined on a quarterly basis by the FSC. Furthermore, the Bank was designated as one of five domestic systemically important banks for 2017 by the FSC and was subject to an additional capital requirement of 0.50 per cent. in 2017. In June 2017, the Bank was again designated as a domestic systemically important bank for 2018, which would subject the Bank to an additional capital requirement of 0.75 per cent. in 2018, with such potential requirement to increase to 1.0 per cent. 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 "*Regulation and Supervision of the Bank — 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 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 Notes.

Risks of the Bank Relating to Government Regulation and Policy

The Bank's income tax expenses may increase as a result of changes to Korean corporate income tax laws.

Pursuant to an amendment to the Corporate Income Tax Law of Korea which became effective in January 2018, the corporate income tax rate applicable to the portion of the tax base of companies that exceeds ₩300 billion has been raised from 24.2 per cent. to 27.5 per cent., inclusive of local income surtax in each case. In addition, pursuant to an amendment to the Special Tax Treatment Control Law of Korea which became effective in January 2018, large corporations with net equity in excess of ₩50 billion, including the Bank, are subject to a 20 per cent. additional levy on the unused amount if a certain portion (i.e., 65 per cent. or 15 per cent., depending on the taxation method) of their taxable income is not used for investments or wage increases. Such changes in Korean income tax laws may result in an increase in the Bank's income tax expenses, which, depending on the magnitude of such increase, may have a material adverse effect on the Bank's results of operations.

Strengthening of consumer protection laws applicable to financial institutions could adversely affect the Bank's operations.

As a financial service provider, the Bank is subject to a variety of regulations in Korea that are designed to protect financial consumers. In recent years, in light of heightened public concern regarding privacy issues, the Government has placed greater emphasis on protection of personal information by financial institutions and has implemented a number of measures to enhance consumer protection, including considerably restricting a financial institution's ability to transfer or provide personal information to its affiliates or holding company. Under the Personal Information Protection Act, as last amended in July 2017, financial institutions, as personal information managers, may not collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically require or permit the management of resident registration numbers. In addition, under the Use and Protection of Credit Information Act, as last amended in November 2017 with effect from May 2018, a financial institution has a higher duty to protect all information that it collects from its customers and is required to treat such information as credit information. A financial institution's ability to transfer or provide the information to its affiliates or holding company is considerably restricted. Treble damages may be imposed on a financial institution for leakage of such information. Furthermore, under the Electronic Financial Transaction Act, as last amended in April 2017, a financial institution is primarily responsible for compensating its customers harmed by a cyber security breach affecting the financial institution even if the breach is not directly attributable to the financial institution.

In June 2016, the FSC proposed the enactment of the Act on the Financial Consumer Protection Framework, which was submitted to the Korean National Assembly in May 2017. If the act is adopted as proposed, banks as financial instrument distributors will be subject to heightened investor protection measures, including stricter distribution guidelines, improved financial dispute resolution procedures, increased liability for customer losses and newly imposed penalty surcharges.

These and other measures that may be implemented by the Government to strengthen consumer protection laws applicable to financial institutions may limit the Bank's operational flexibility and cause the Bank to incur significant additional compliance costs, as well as subject the Bank to increased potential liability to its customers, which could adversely affect the Bank's business and performance.

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 and adverse conditions in the Korean economy affecting such enterprises, the Government introduced measures intended to encourage Korean banks to provide financial support to SMEs and retail borrowers. See "*— Risks Relating to the Bank's Retail Credit Portfolio — 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 "*— Risks Relating to the Bank's Small- and Medium-Sized Enterprise (SME) Loan Portfolio — 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;
- sale 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 Relating to Korea

Escalations in tensions with North Korea could have an adverse effect on the Bank and the market price of the Notes.

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

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their 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 reinitiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

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

Although bilateral summit meetings were held between Korea and North Korea in April 2018 and May 2018 and between the United States and North Korea in June 2018, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any 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 business, financial condition and results of operations and the market price and ratings of the Notes.

Unfavorable financial and economic developments in Korea may have an adverse effect on the Bank.

The Bank is incorporated in Korea, and substantially all of its operations are located in Korea. As a result, the Bank is 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 the Bank's 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. See "— *Other Risks Relating to the Bank's Business — Unfavorable changes in the global financial markets could adversely affect the Bank's results of operations and financial condition*." The value of the Won relative to major foreign currencies has also fluctuated significantly. Furthermore, as a result of changing 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 business, financial condition and results of operations.

Developments that could hurt Korea's economy in the future include:

- adverse conditions or uncertainty 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, as well as increased uncertainty in light of a future Brexit;
- 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;
- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail or SME borrowers in Korea;
- declines in consumer confidence and a slowdown in consumer spending;
- the investigations of several Korean conglomerates and their senior management for bribery, embezzlement and other possible misconduct;
- social and labor unrest;

- decreases in the market prices of Korean real estate;
- a decrease in tax revenues 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 *chaebols*, other large troubled companies and their suppliers;
- loss of investor confidence arising from corporate accounting irregularities, allegations of corruption and corporate governance issues concerning certain *chaebols*;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;
- the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;
- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;
- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States);
- 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;
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States; and
- changes in financial regulations in Korea.

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 3.6 per cent. in 2015 to 3.7 per cent. in 2016 and 2017. Further 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.

Risks Relating to the Issuer and the Issuer's Business

The Issuer has significant exposure to real estate risk.

Since the Issuer's business consists exclusively of operating and managing the Lotte World Tower and Mall and sales of the private offices and residences therein, the Issuer is subject to the risks related to the ownership, operation and management of real estate that can adversely impact its business and financial condition. Certain significant costs, such as mortgage payments, real estate taxes, insurance and maintenance, generally are not reduced even when a property's rental income is reduced or when the Issuer is unable to derive revenue from sales of offices and residences on commercially acceptable terms. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply and demand of commercial space fluctuate with market conditions.

Since the Issuer derives substantially all of its income from operation and management of the Lotte World Tower and Mall and sales of the private offices and residences therein, the Issuer is subject to the following general risks of acquiring and owning real estate related assets:

- changes in the national, state and local economic climate and real estate conditions, such as oversupply of or reduced demand for commercial or residential real estate space and changes in market rental rates or property prices;
- how prospective tenants or property owners perceive the attractiveness, convenience and safety of the Issuer's properties;
- natural disasters, such as earthquakes, typhoons and floods, which could exceed the aggregate limits of the Issuer's insurance coverage;
- the expense of periodically renovating, repairing and re-letting spaces;
- the impact of environmental protection laws;
- compliance with federal, state and local laws and regulations;
- increasing operating and maintenance costs, including property taxes, insurance and utilities, if these increased costs cannot be passed through to customers;
- adverse changes in tax, real estate and zoning laws and regulations;
- increasing competition from other commercial or residential properties in our market; and
- tenant defaults and bankruptcies.

If materialized, these risks could, individually or in the aggregate, result in reduced revenues, increased expenses, increased capital expenditures, or increased borrowings, which could have a material adverse effect on the Issuer's operating results, financial condition and cash flows.

Risks Relating to the Notes

Uncertainty relating to the LIBOR calculation process may adversely affect the value of, and return on, the Notes.

Reference rates and indices, including interest rate benchmarks such as the London Interbank Offered Rate ("**LIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**") have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of LIBOR or its discontinuation could have a material adverse effect on the Notes.

The Conditions provide that the interest rate in respect of the cash interest on the Notes shall be determined by reference to the applicable Reuters screen. In circumstances where the applicable Reuters screen is not available, the Conditions provide for the interest rate in respect of the cash interest to be determined by the Calculation Agent by reference to quotations from the principal London office of a major bank of the rate offered by it for deposits to leading banks in the London interbank market.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the interest rate in respect of the cash interest will be the higher of: (a) a rate determined by the Calculation Agent by reference to the U.S. dollar lending rate quoted by major New York City banks selected by the Calculation Agent (upon consultation with the Issuer) or (b) the interest rate in respect of the cash interest applicable as at the last preceding interest period. If LIBOR is discontinued permanently, depending on the U.S. dollar lending rate quoted by major New York City banks, the same interest rate that was applied during the last preceding interest period may continue to apply in respect of the cash interest for each successive interest period until the maturity of the Notes, so that the Notes will, in effect, become fixed rate notes utilising the last available LIBOR rate. Uncertainty as to the continuation of LIBOR, the availability of quotes from the reference bank, and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Notes.

The rating assigned to the Notes may be suspended, lowered or withdrawn in the future.

The Notes are expected to be rated "Aa3" by Moody's. The rating assigned to the Notes will have been based primarily on the Guarantee to be issued by the Bank with respect to the Notes. Pursuant to the Guarantee, the Bank will unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes as and when such sums become due (the "**Guaranteed Amounts**"). The payment of the Guaranteed Amounts will, therefore, depend on the Bank performing its obligations under the Guarantee, and the likelihood of payment of the Guaranteed Amounts will depend on the creditworthiness of the Bank. Consequently, investors are relying not only on the creditworthiness of the Issuer but also on the creditworthiness of the Bank to perform its obligations under the Guarantee. A significant deterioration in the financial condition of the Bank could adversely affect the likelihood of investors receiving Guaranteed Amounts under the Guarantee and could result in a downgrade or withdrawal of the rating of the Notes.

A rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time. There can be no assurance that a rating will remain for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. Neither the Issuer nor the Bank has an obligation to inform Holders of any such revision, downgrade or withdrawal. A reduction, suspension, or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes or a Holder's ability to dispose of the Notes.

The liquidity and price of the Notes may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Issuer's or the Bank's revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions or dispositions, interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the Issuer's or the Bank's industry, as well as general economic conditions in Korea or internationally, could cause the price of the Notes to fluctuate. Any such developments may result in large and sudden adverse changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

An active trading market for the Notes may not develop.

The Notes are a new issue of securities for which there is currently no trading market. No assurance can be given that the Issuer will obtain or be able to maintain a listing and quotation of the Notes on the SGX-ST or that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their Notes or the price at which Holders will be able to sell their Notes.

The Managers are not obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at their sole discretion. Even if the Managers act as market makers for the Notes, the secondary market for the Notes may be limited and there is no assurance given as to the price offered by a secondary market-makers or the impact of any such quoted prices on those available in the wider market. To the extent that the Notes become illiquid, an investor may have to hold the relevant Notes until maturity before it is able to realize value. Investors should note that a secondary market may be affected by both legal restrictions in certain jurisdictions and by the Issuer and/or the Managers purchasing or holding the Notes.

The Notes contain provisions regarding meetings, modification, waivers and substitution which may affect the rights of Holders.

The Conditions of the Notes and the Fiscal Agency Agreement contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Fiscal Agent may agree, without the consent of Holders, to the waiver or authorization of any breach or proposed breach of, any of the Conditions of the Notes or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Issuer, materially prejudicial to the interests of the Holders, or may agree, among other things, to make any modifications to the Notes or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Issuer to correct a manifest error or to comply with mandatory provisions of the laws of Korea so long as such modification does not adversely affect the rights of any Holder in any material respect.

The Notes are represented by the Global Certificate and Holders must rely on the procedures of the relevant Clearing System(s).

Notes are represented by the Global Certificate. The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a "**Clearing System**"). Except in the circumstances described in the relevant Global Certificate, investors will not be entitled to receive Definitive Certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by the Global Certificate, the Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account holders.

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

The Notes may not be a suitable investment for all investors seeking exposure to green assets.

Pursuant to the recommendation in the International Capital Market Association's Green Bond Principles 2018 (the "**2018 Green Bond Principles**") and the Sustainability Bond Guidelines 2018 (the "**2018 Sustainability Bond Guidelines**") that issuers use external assurance to confirm their alignment with the key features of the 2018 Green Bond Principles and the 2018 Sustainability Bond Guidelines, at the Issuer's request, Sustainalytics ("**Sustainalytics**") has issued a framework overview and second party opinion dated July 2018 (the "**Framework Report**").

The Framework Report is not incorporated into, and does not form part of, this Offering Circular. Such Framework Report provides an opinion on certain environmental and related considerations but is not intended to address any credit, market or other aspects of an investment in the Notes including, without limitation, market price, marketability, investor preference or suitability of any security. Neither the Issuer nor the Managers make any representation as to the suitability of the Framework Report. The Framework Report is not a recommendation to buy, sell or hold securities and is only current as of the date it was initially issued. Furthermore, the Framework Report is for information purposes only and Sustainalytics does not accept any form of liability for the substance of its Framework Report and/or any liability for loss arising from the use of its Framework Report and/or the information provided therein.

The Issuer has agreed to certain use of proceeds, reporting and other obligations as described under the sections "*Use of Proceeds*" and "*Sustainability Bond Framework*", respectively; however, it will not be an event of default under the Notes if the Issuer fails to comply with such obligations. A withdrawal of either of the Framework Report may affect the value of the Notes and/or may have consequences for certain investors with portfolio mandates to invest in green assets. In the event that the Notes are included in any dedicated "green", "environmental", "sustainable" or other equivalently-labelled index, no representation or assurance is given by the Issuer or any other person that such listing or admission, or inclusion in such index, satisfies any present or future investor expectations or requirements as regards to any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates.

TERMS AND CONDITIONS OF THE NOTES

The following terms and conditions will be endorsed on the back of the Definitive Certificates (as defined below) issued in respect of the Notes:

The US$200,000,000 Guaranteed Senior Unsecured Sustainability Notes (the "**Notes**," which expression, unless the context otherwise requires, includes any further Notes issued pursuant to Condition 10 and forming a single series with the Notes) of LOTTE Property & Development Co., Ltd. (the "**Issuer**") are issued under a fiscal agency agreement dated August 7, 2018 (as amended from time to time, the "**Fiscal Agency Agreement**"), among the Issuer, Kookmin Bank as the guarantor (the "**Guarantor**") and Citicorp International Limited, as fiscal agent (the "**Fiscal Agent**," which expression shall include its successor(s)), Citibank, N.A., London Branch, as paying agent (the "**Paying Agent**," which expression shall include its successor(s)), transfer agent (the "**Transfer Agent**," which expression shall include its successor(s)) and calculation agent (the "**Calculation Agent**," which expression shall include its successor(s)) and Citigroup Global Markets Europe AG as registrar (the "**Registrar**," which expression shall include its successor(s)). References herein to the "**Agents**" are to the Fiscal Agent, the Paying Agent, the Transfer Agent, the Calculation Agent and the Registrar, and any reference to an "**Agent**" is to any one of them. The Notes are issued, and may or must be redeemed by the Issuer, on the terms set out in these Terms and Conditions (the "**Conditions**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours by the Holders (as defined below) at the specified office of the Fiscal Agent. Holders are deemed to have notice of those provisions applicable to them of the Fiscal Agency Agreement.

1. FORM AND TRANSFER

1.1 Form and Principal Amount

The Notes are in registered form and are issued on their date of issue and transferable in minimum principal amounts (the "**Principal Amount**") of US$200,000 and integral multiples of US$1,000 in excess thereof. A security certificate (a "**Definitive Certificate**") will be issued to each Holder in respect of its registered holding of Notes. Each Definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Holders (the "**Register**") which the Issuer will procure to be kept by the Paying Agent. The Notes will initially be represented by one or more certificates in global form (each, a "**Global Certificate**"). No individual certificates will be issued to Holders except upon the circumstances set forth in the Fiscal Agency Agreement. The Notes will be issued at the Issue Price.

1.2 Title

Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Holder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the Register (or, in the case of a joint holding, the first named thereof).

2. TRANSFERS OF NOTES AND ISSUE OF DEFINITIVE CERTIFICATES

2.1 Transfers

Subject as provided in Condition 2.4, a Note may be transferred by depositing the Definitive Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Fiscal Agent (or, in the case of a Note represented by a Global Certificate, delivery of a duly executed form of transfer as set forth in the Fiscal Agency Agreement), together with such evidence as the Fiscal Agent may reasonably require to prove title to the Notes that are the subject of the transfer and the authority of the individuals who have executed the form of transfer. Legal title to the Notes will pass upon registration of such transfer in the Register.

All transfers of Notes and entries in the Register will be made subject to the terms concerning transfers of Notes provided in the Fiscal Agency Agreement.

2.2 Delivery of new Definitive Certificates

Each new Definitive Certificate to be issued upon transfer of Notes will, within five business days of receipt by the Fiscal Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city where the Agents have their specified offices.

Where some but not all of the Notes in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Principal Amount of Notes not so transferred will, within 10 business days of receipt by the Fiscal Agent of the original Definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register (or, in the case of a joint holding, the first named thereof).

2.3 Formalities free of charge

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

2.4 Closed periods

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

3. STATUS AND NEGATIVE PLEDGE

3.1 Status of the Notes

The Notes constitute direct, general and unconditional obligations of the Issuer which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for such as may be preferred by mandatory provision of applicable law).

3.2 Negative Pledge

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

(a) payment of any sum due in respect of any such International Investment Securities;

(b) payment under any guarantee in respect of any such International Investment Securities; or

(c) payment under any indemnity or other like obligation in respect of any such International Investment Securities,

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

"**International Investment Securities**" means notes, bonds, debentures, certificates of deposit or investment securities of any person which (i) by their terms either are payable, or confer a right to receive payment, in any currency other than Korean won or are denominated in Korean won and more than one-half of the aggregate principal amount of which is initially distributed outside Korea by or with the authorization of the Issuer and (ii) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

4. GUARANTEE

Pursuant to the guarantee set out in Section 3 of the Fiscal Agency Agreement as evidenced by the notation of guarantee dated August 7, 2018 (the "**Guarantee**"), the Guarantor has given for the benefit of the Holders an unconditional and irrevocable guarantee for the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes as and when the same shall become due according these Conditions. The Guarantee relating to the Notes constitutes a direct, general and unconditional obligation of the Guarantor which will be unsecured and will rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor (save for such as may be preferred by mandatory provision of applicable law). The Guarantee will remain in full effect until the earlier of (i) the payment of all sums payable in respect of the relevant Notes having been paid in full and (ii) the Maturity Date.

5. INTEREST

5.1 Interest Payment Dates

The Notes bear interest from and including August 7, 2018 and such interest will be payable on each February 7, May 7, August 7 and November 7 (each an "**Interest Payment Date**"). If any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding Business Day. The period beginning on August 7, 2018 and ending on (but excluding) the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

5.2 Interest Payments

Each Note will cease to bear interest from the due date for redemption unless, after surrender of the relevant Definitive Certificate, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at the rate calculated in accordance with Condition 5.3 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder, and (ii) the day seven days after the Fiscal Agent has notified Holders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions or any payment by the Issuer has subsequently become void).

5.3 Rate of Interest

The rate of interest from time to time in respect of the Notes (the "**Rate of Interest**") will be determined by the Calculation Agent on the following basis:

(a) On the date falling two London Business Days prior to the beginning of each Interest Period (the "**Interest Determination Date**") the Calculation Agent will determine the offered rate ("**LIBOR**") for three-month U.S. dollar deposits at or about 11:00 a.m. (London time) on the Interest Determination Date in question. Such offered rate will be that which appears on the Reuters screen "LIBOR01" (or such other page or service as may replace it for the purpose of displaying London interbank offered rates of major banks for U.S. dollar deposits). The Rate of Interest for such Interest Period shall be the sum of 0.925% per annum and the rate which so appears, as determined by the Calculation Agent.

(b) If for any reason such offered rate does not so appear, or if the relevant page is unavailable, the Calculation Agent will request that the principal London office of a major bank selected by the Calculation Agent (upon consultation with the Issuer) in the London interbank market as the reference bank (the "**Reference Bank**") provide the Calculation Agent with its offered quotation to leading banks for Euro-dollar deposits in London for a period of three months at or about 11:00 a.m. (London time) on the Interest Determination Date in question (for the avoidance of doubt, the applicable LIBOR shall be determined on the basis of such offered quotation from the Reference Bank). The Rate of Interest for such Interest Period shall be the sum of 0.925% per annum and the arithmetic mean (rounded, if necessary, up to the fifth decimal place) of such quotations (or of such of them, being at least two, as are so provided), as determined by the Calculation Agent.

(c) If on any Interest Determination Date the Reference Bank does not provide such quotation, the Rate of Interest for the next Interest Period shall be whichever is the higher of:

 (i) the Rate of Interest in effect for the last preceding Interest Period to which one of the preceding paragraphs of this Condition 5.3 shall have applied, and

 (ii) the rate per annum which the Calculation Agent determines to be either (x) the sum of 0.925% per annum and the arithmetic mean of the U.S. dollar lending rates which New York City banks selected by the Calculation Agent (upon consultation with the Issuer) are quoting, on the relevant Interest Determination Date, for a period of three months, to the Reference Bank to which such quotations are, in the opinion of the Calculation Agent, being so made, or (y) if the Calculation Agent can determine no such arithmetic mean, the sum of 0.925% per annum and the lowest U.S. dollar lending rate which major New York City banks selected by the Calculation Agent (upon consultation with the Issuer) are quoting on such Interest Determination Date to leading European banks for a period of three months, except that, if the banks so selected by the Calculation Agent are not quoting as mentioned above, the Rate of Interest shall be the Rate of Interest specified in sub-paragraph (i) above.

(d) In this Condition, for the purpose of determination of the Rate of Interest, "**London Business Day**" means a day which commercial banks and foreign exchange markets are open for business in London.

5.4 **Determination of Rate and amount of interest**

The Calculation Agent will, as soon as practicable on each Interest Determination Date, determine the Rate of Interest and calculate the amount of interest payable per Calculation Amount (as defined below) for the relevant Interest Period. The determination of the Rate of Interest and the amount of interest payable per Calculation Amount by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

5.5 **Publication of Rate of Interest and amount of interest payable per Calculation Amount**

The Calculation Agent shall notify (i) the Holders, the Fiscal Agent and each Paying Agent and the Issuer and the Guarantor, of the Rate of Interest for each Interest Period, the date of each Interest Payment Date and the interest amount payable on each Interest Payment Date forthwith upon their being determined (and of any adjustment thereto in accordance with the Conditions forthwith upon its being made) and (ii) the Fiscal Agent, the Issuer, the Guarantor and the Holders if it does not for any reason at any reasonable time determine the Rate of Interest or calculate the interest amount for any Interest Period.

5.6 **Calculation Agent**

The Issuer will procure that, so long as any Note is outstanding, there shall at all times be an Calculation Agent for the purposes of the Notes. If the Calculation Agent (acting through its relevant office) is unable or unwilling to continue to act as such, or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period, the Issuer shall appoint some other leading bank engaged in the London interbank market (acting through its principal London office) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been so appointed.

5.7 **Calculation of Interest**

Interest in respect of the Notes shall be calculated with respect to the aggregate principal amount of the Notes of U.S.$1,000 (the "**Calculation Amount**"). The amount of interest payable for the Calculation Amount for any period shall be calculated by applying the Rate of Interest to the Calculation Amount and multiplying such product by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6. REDEMPTION

6.1 **Maturity**

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their outstanding principal amount on the Interest Payment Date falling on, or nearest to, August 7, 2021 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with Condition 6.2.

6.2 **Early Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date, at their outstanding principal amount together with any accrued but unpaid interest thereon, on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and the Guarantor and, in accordance with Condition 13, the Holders (which notice shall be irrevocable), if

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which (including the cessation of tax exemptions presently applicable) change or amendment becomes effective on or after July 31, 2018; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

6.3 **Cancellations**

All Notes which are redeemed or purchased by or on behalf of the Issuer, or any of the Issuer's Subsidiaries and which the Issuer elects to cancel, will forthwith be cancelled.

7. PAYMENTS

7.1 Payments of principal and interest in respect of each Note will be made by transfer to the registered account of the Holder or by U.S. dollar check drawn on a bank (nominated in writing to the Paying Agent by the Holder) that processes payments in U.S. dollar mailed to the registered address of the Holder if it does not have a registered account, provided that the nomination is received by the Paying Agent not later than 10 Payment Business Days before any date on which payment is scheduled. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition 7.1, a Holder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollar, details of which appear on the Register at the close of business on the relevant record date, and a Holder's "**registered address**" means its address appearing on the Register at that time.

7.2 Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed on the due date for payment, or if that is not a Payment Business Day, on the next succeeding Payment Business Day, without any interest or payment in respect of such delay.

7.3 Payments in respect of amounts payable by way of interest and on redemption of the Notes will be subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

7.4 In this Condition, "**Payment Business Day**" means a day which is both: (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Paying Agent has its registered office from time to time; and (b) a day on which banks are open for business in New York and Seoul.

7.5 Unless the context otherwise requires, any reference in these Conditions to principal in respect of the Notes shall be deemed to include any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

8. TAXATION AND GROSS-UP

8.1 Payment without withholding

All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction ("**Relevant Taxes**"), unless the withholding or deduction of such Relevant Taxes is required by law. In that event, the Issuer will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders after the withholding or deduction (including any withholding or deduction in respect of such payment of Additional Amounts) will equal the respective amounts which would otherwise have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no Additional Amounts will be payable in relation to any Relevant Taxes imposed on, withheld or deducted from any payment in respect of any Note:

(a) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of such Note by reason of having some connection with the Relevant Jurisdiction other than the mere holding of the Note or the receipt of payments or enforcement of rights thereunder; or

(b) held by or on behalf of a Holder or beneficial owner who is liable for such Relevant Taxes in respect of the Note by reason of having some relationship with the Issuer for Korean tax purposes other than the mere holding of such Note; or

(c) where such withholding or deduction is imposed by reason of a failure of a Holder or any other person to (i) comply with any certification, identification, information-provision or documentation requirement concerning the nationality, residence, identity or connection with the Relevant Jurisdiction of the Holder or beneficial owner or (ii) comply with any other certification, identification, information-provision or documentation requirement, or enter into any agreement with any taxing authority, provided that (x) the Issuer or the Fiscal Agent has given the Holder at least 30 calendar days prior notice of an opportunity to satisfy such a requirement and (y) compliance is required or imposed by a statute, treaty, rule, regulation, agreement or administrative practice of the Relevant Jurisdiction as a condition or precondition to relief or exemption from all or part of such Relevant Taxes; or

(d) where such withholding or deduction is imposed only by virtue of a Holder or any other person not having presented the Note (where presentation is required) for payment within 30 days after the date on which such payment becomes due and payable or the date on which such payment thereof is duly provided for, whichever occurs earlier, except to the extent such Holder or other person would be entitled to Additional Amounts had the Note been surrendered during such 30-day period; or

(e) in the event that a Holder or any other person who holds an interest in the Note is a fiduciary, a partnership or any person other than the sole beneficial owner of such payment, where such withholding or deduction would not have been imposed had the beneficiary or settlor with respect to such fiduciary, member of such partnership or beneficial owner of such payment been the actual Holder of the Note; or

(f) where such withholding or deduction is imposed as a result of any combination of (a) through (e) above.

Additionally, the obligation of the Issuer to pay such Additional Amounts shall not apply with respect to (i) any estate, inheritance, gift, sales, transfer or personal property tax or any similar taxes, duties, assessments or other governmental charges or (ii) any taxes, duties, assessments or other governmental charges that are payable otherwise than by deduction or withholding from payments on the Notes.

8.2 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes will be deemed also to refer to any Additional Amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Fiscal Agency Agreement.

8.3 **Documentation**

The Issuer will provide the Fiscal Agent with the official acknowledgment, if any, of the Relevant Jurisdiction (or, if such acknowledgment is not available, other reasonable documentation) evidencing payment of any Relevant Taxes in respect of which the Issuer has paid any Additional Amounts. Copies of such documentation will be made available to the Holders or beneficial owners of the Notes by the Fiscal Agent upon written request therefor.

8.4 **Other Taxes**

The Issuer will pay any stamp, issue, excise, registration, documentary or other similar taxes and duties, including interest and penalties, imposed by a Relevant Jurisdiction in respect of the creation, issue, delivery, registration and offering of the Notes. The Issuer will also pay and indemnify the Holders and beneficial owners of the Notes from and against all court taxes or other taxes and duties, including interest and penalties, paid by any of them in any jurisdiction in connection with any action permitted to be taken by the Holders and beneficial owners to enforce the Issuer's obligations under the Notes.

9. PRESCRIPTION

A claim against the Issuer or the Guarantor for payment under these Conditions will become void unless made within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date relating thereto.

10. FURTHER ISSUES

Subject to applicable law, the Issuer may from time to time without the consent of the Holders create and issue further securities or incur further debt obligations either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of Interest Amount thereon) and so that the same will be consolidated and form a single series with the Notes (provided, however, that any such issuance of securities shall be subject to the prior written consent of the Guarantor); or (b) upon such terms as to ranking, distributions or interest, conversion, redemption and otherwise as the Issuer may determine at the time of issue.

11. EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs and is continuing:

11.1 **Non-payment**: default is made in the payment of any amount of principal or interest in respect of the Notes on the due date for payment thereof and such default remains unremedied for 10 days or, in the case of default in the payment of interest, 15 days thereafter; or

11.2 **Breach of other obligations**: default is made in the performance or observance of any other obligation of the Issuer or the Guarantor under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any holder of Notes, has been delivered to the Issuer; or

11.3 **Cross-acceleration**: (1) any Indebtedness in aggregate exceeding US$20,000,000 (or its equivalent in one or more currencies) of the Issuer is not paid within 30 days after the due date or, as the case may be, the expiry of any originally applicable grace period, (2) any Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (in the absence of any event of default, howsoever described) any person entitled to such Indebtedness or (3) the Issuer fails to pay within 30 days after the due date or, as the case may be, the expiry of any originally applicable grace period, any amount payable by it under any Surety; or

11.4 **Guarantee**: the Guarantor denies or disaffirms its obligations under the Guarantee or the Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect; or

11.5 **Enforcement proceedings**: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out upon or against any of the assets or revenues of the Issuer or the Guarantor and is not discharged or stayed within 60 days; or

11.6 **Cessation of Business**: the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its respective business save for the purposes of, or pursuant to and followed by, a consolidation, amalgamation, merger or reorganization the terms of which shall have previously been approved as a Special Matter by the Holders; or

11.7 **Security enforced**: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor; or

11.8 **Winding-up**: an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor; or

11.9 **Analogous event**: any event occurs which under the laws of Korea has an analogous effect to any of the events referred to in Conditions 11.1 to 11.8,

then the holder of any Note may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Fiscal Agent in accordance with Condition 13, declare such Note to be immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality. Any such notice shall specify the serial number of each Note in respect of which it is given.

12. VARIATION OF RIGHTS

12.1 Variation without consent

The Fiscal Agent may agree with the Issuer and the Guarantor, without the approval of Holders, to amend, modify, alter or add to either these Conditions or the provisions of the Fiscal Agency Agreement, if the Issuer is of the opinion that the amendment, modification, alteration or addition is:

(a) of a formal, minor or technical nature;

(b) made to correct an error which, in the opinion of the Issuer is proven;

(c) not materially prejudicial to the interests of Holders as a whole; or

(d) to comply with mandatory provisions of law.

12.2 Meetings

(a) The Fiscal Agency Agreement contains provisions for convening meetings of the Holders to consider any matter relating to the Notes and/or the Fiscal Agency Agreement, including the modification or abrogation of any of these Conditions or any of the provisions of the Fiscal Agency Agreement, upon either the written consent of the Holders of not less than a majority in Principal Amount of the outstanding Notes or the approval of persons entitled to vote not less than a majority of the Principal Amount of such Notes represented and voting at a meeting of the Holders duly called. The quorum at such meeting shall be one or more persons entitled to vote a majority in Principal Amount of the outstanding Notes, or at an adjourned meeting, one or more persons entitled to vote 25% in Principal Amount of the outstanding Notes.

(b) Notwithstanding Condition 12.1 above, for the purposes of passing a resolution at a meeting the business of which includes a Special Matter, no amendment, modification or abrogation shall be made to the Notes (including these Conditions) or the Fiscal Agency Agreement without the approval or written consent of the Holders of not less than 90% in Principal Amount of the then outstanding Notes or the approval of persons entitled to vote not less than 75% of the Principal Amount of such Notes represented and voting at a meeting of the Holders duly called, and where at such meeting a special quorum shall be required comprising one or more persons entitled to vote two-thirds in Principal Amount of the then outstanding Notes, or at an adjourned meeting, one or more persons entitled to vote one-third in Principal Amount of the then outstanding Notes.

(c) On a poll each Holder of a Note present in person or by proxy and entitled to vote shall have one vote in respect of each US$1,000 in Principal Amount of such Holder's Notes.

(d) The Issuer, the Guarantor and the Fiscal Agent may, at any time and from time to time, without the consent of any Holders, amend or supplement the Fiscal Agency Agreement or these Conditions: (i) to evidence the succession of another person to the Issuer or the Guarantor and the assumption by any such successor of the covenants of the Issuer or the Guarantor, as applicable, in the Fiscal Agency Agreement and the Notes; (ii) to add to the covenants of the Issuer or the Guarantor for the benefit of the Holders or to surrender any right or power conferred on the Issuer or the Guarantor; (iii) to provide for the issuance of additional Notes in accordance with the limitations set forth in these Conditions and the Fiscal Agency Agreement; (iv) to cure any ambiguity or to correct or supplement any provision in the Fiscal Agency Agreement or these Conditions, which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Fiscal Agency Agreement that are not inconsistent with the provisions of the Fiscal Agency Agreement; provided that such action shall not adversely affect the interests of the Holders in any material respect; or (v) to make any other modifications to the Notes or the Fiscal Agency Agreement of a formal, minor or technical nature or necessary in the reasonable opinion of the Issuer to correct a manifest error or, in reliance on an opinion of counsel delivered to the Fiscal Agent, to comply with mandatory provisions of the laws of Korea so long as such modification does not adversely affect the rights of any Holder in any material respect.

12.3 **Waiver, authorization and determination**

The Fiscal Agent may agree, without the consent of the Holders, to the waiver or authorization of any breach or proposed breach of, any of these Conditions or any of the provisions of the Fiscal Agency Agreement, provided that it is not, in the opinion of the Issuer, materially prejudicial to the interests of the Holders.

12.4 **Notification to the Holders**

Any modification, abrogation, waiver, determination, authorization or substitution pursuant to or described in this Condition 12 shall be (i) binding on the Holders, whether or not they are present at any meeting and whether or not they voted, and (ii) notified by the Issuer to the Holders as soon as practicable thereafter in accordance with Condition 13.

12.5 **Compliance with stock exchange rules**

In connection with any amendment, modification, alteration, addition or substitution under this Condition 12, the Issuer will comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

13. NOTICES

All notices regarding the Notes shall be valid if sent by post to the Holders at their respective addresses in the Register (which, in the case of a Global Certificate, is expected to consist solely of the common depositary of Euroclear or Clearstream or its nominee, or any successor thereto) and, if and for so long as the Notes are listed on the SGX-ST and the rules of that exchange so require, published in a newspaper of general circulation in Singapore and/or (where applicable) on the SGX-ST's website. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system appointed in accordance with the terms of the Notes and the Fiscal Agency Agreement, notices to Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system as aforesaid.

The Issuer shall provide the Guarantor with a copy of each notice it is required to provide to the Holders or an Agent.

14. AGENTS

Under the terms of the Fiscal Agency Agreement, the Issuer has the right to terminate the appointment of any Agent and appoint a successor provided that there shall at all times be:

(a) at least one paying agent, provided that so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate is exchanged for Definitive Certificates, and unless the Issuer obtains an exemption from the SGX-ST, the Issuer will appoint and maintain a paying agent in Singapore, where the Definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for Definitive Certificates, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore;

(b) a fiscal agent;

(c) a registrar;

(d) a transfer agent; and

(e) a calculation agent.

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing law

The Notes and the Guarantee are governed by, and will be construed in accordance with, the laws of the State of New York.

15.2 Jurisdiction

In relation to any suit, legal action or proceedings arising out of or in connection with the Notes, each of the Issuer and the Guarantor will irrevocably submit to the jurisdiction of the New York State and United States Federal courts sitting in the Borough of Manhattan, New York City.

15.3 Appointment of process agent

The Issuer has irrevocably and unconditionally appointed Cogency Global Inc. at 10 E. 40th Street, 10th floor, New York, NY 10016 as its agent for service of process in respect of any suit, action or proceedings arising out of or in connection with the Notes and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as its agent for that purpose.

The Guarantor has irrevocably and unconditionally appointed Kookmin Bank, New York Branch at 565 Fifth Avenue, 24th Floor, New York, New York 10017 as its agent for service of process in respect of any suit, action or proceedings arising out of or in connection with the Notes and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as its agent for that purpose.

15.4 **Waiver of Immunity**

To the extent that the Issuer or the Guarantor has or hereafter may acquire any immunity (sovereign or otherwise) from jurisdiction of any court or from any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution, set-off or otherwise) with respect to themselves or their respective property and assets or the Notes (in the case of the Issuer) or the Guarantee (in the case of the Guarantor), the Issuer and the Guarantor hereby irrevocably and unconditionally waive, and agree not to plead or claim, any such immunity, and consent to the relief or enforcement, in respect of its respective obligations under the Notes (in the case of the Issuer) or the Guarantee (in the case of the Guarantor) to the fullest extent permitted by applicable law.

16. DEFINITIONS

Unless the context otherwise requires, the following terms will have the following meanings in these Conditions:

"**Additional Amounts**" has the meaning specified in Condition 8.1.

"**Business Day**" means a day on which banks are open for business in New York City, Seoul, London and Hong Kong.

"**Calculation Agent**" has the meaning specified in the preamble to these Conditions.

"**Calculation Amount**" has the meaning specified in Condition 5.7.

"**Conditions**" means these terms and conditions of the Notes.

"**Definitive Certificate**" has the meaning specified in Condition 1.1.

"**Fiscal Agency Agreement**" has the meaning specified in the preamble to these Conditions.

"**Fiscal Agent**" means has the meaning specified in the preamble to these Conditions.

"**Global Certificate**" has the meaning specified in Condition 1.1.

"**Holder**" has the meaning specified in Condition 1.2.

"**Indebtedness**" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by way of acceptances or leasing);

"**Interest Amount**" means the amount payable per Calculation Amount on an Interest Payment Date.

"**Interest Payment Date**" has the meaning specified in Condition 5.1.

"**Interest Period**" has the meaning specified in Condition 5.1.

"**International Investment Securities**" has the meaning specified in Condition 3.2.

"**Issue Price**", in relation to a Note, has the meaning specified in the prospectus or other issuance documentation in respect of that Note.

"**Issuer**" means LOTTE Property & Development Co, Ltd.

"**Payment Business Day**" has the meaning specified in Condition 7.4.

"**Principal Amount**" has the meaning specified in Condition 1.1.

"**Register**" has the meaning specified in Condition 1.1.

"**Registrar**" has the meaning specified in the preamble to these Conditions.

"**Relevant Date**" means the date on which the relevant payment first becomes due but, if the full amount of the money payable has not been received by the relevant Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Holders by the Issuer.

"**Relevant Jurisdiction**" means the Republic of Korea or any political subdivision or any authority thereof or therein having power to tax or, in the event of any substitution, Solvent Reorganization or other corporate action resulting in the Issuer being tax resident in any other jurisdiction, that other jurisdiction or any political subdivision or any authority thereof or therein having power to tax.

"**Relevant Taxes**" has the meaning specified in Condition 8.1.

"**SGX-ST**" means the Singapore Exchange Securities Trading Limited.

"**Solvent Reorganization**" means, with respect to the Issuer, solvent Winding-Up, deregistration, dissolution, scheme of arrangement or other reorganization of the Issuer solely for the purposes of a consolidation, amalgamation, merger or reconstruction under which the continuing or resulting corporation effectively assumes the obligations of the Issuer under the Notes and the Fiscal Agency Agreement.

"**Special Matter**" means each of the following matters:

(i) reduction or cancellation of the amount payable or, where applicable, modification, except where such modification is in the opinion of the Fiscal Agent bound to result in an increase of any principal or interest in respect of the Notes;

(ii) modification of the date of payment in respect of any principal or interest in respect of the Notes;

(iii) alteration of the currency in which payments under the Notes are to be made;

(iv) modification or waiver of the provisions regarding the negative pledge of the Issuer referred to in Condition 3.2 (Negative Pledge);

(v) alteration of the obligations of the Issuer under Conditions 6 (Redemption), 8 (Taxation and Gross-up) or 11 (Events of Default);

(vi) the terms of any consolidation, amalgamation, merger or reorganization of the Issuer or the Guarantor;

(vii) reduction of any of the percentage voting and quorum provisions in Condition 12; or

(viii) modification of any of the above matters constituting the Special Matters.

"**Subsidiary**" means any corporation or other business entity of which one person 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 corporation or other business entity (other than capital stock or other ownership interest of any other class or classes which has voting power only upon the occurrence of any contingency).

"**Surety**" means any obligation of any person(s) to pay any Indebtedness of another person(s) in an aggregate principal amount of not less than US$5,000,000 including, without limitation, (1) any obligation to purchase such Indebtedness, (2) any obligation to lend or give money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (3) any indemnity against the consequences of a default in the payment of such Indebtedness and (4) any other agreement to be responsible for such Indebtedness.

"**Transfer Agent**" has the meaning specified in the preamble to these Conditions.

"**Winding-Up**" means, with respect to the Issuer or the Guarantor, a final and effective order or resolution for the bankruptcy (as set forth in Part 3 of the Debtor Rehabilitation and Bankruptcy Act of Korea), winding up, liquidation or any other proceedings in respect of the Issuer or the Guarantor, as the case may be, which commences with a view to liquidation of the Issuer or the Guarantor, as the case may be.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions that apply to the Notes in respect of which it is issued, some of which modify the effect of the Conditions of the Notes set out in this Offering Circular. The following is a summary of provisions of the Notes while in global form.

Meetings

The registered holders of the Notes in respect of which the Global Certificate is issued will be treated as being one person for the purposes of any meeting of Holders, and at any such meeting, as having one vote in respect of each US$1,000 in principal amount of the Notes in respect of which the Global Certificate is issued.

Cancellation

Cancellation of any Notes following its redemption or purchase by the Issuer will be effected by a reduction in the principal amount of the Notes in the register of Holders.

Transfers

Transfers of interests in the Notes will be effected through the records of Euroclear and Clearstream, and their respective participants in accordance with their respective rules and operating procedures.

Notices

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear, Clearstream or an alternative clearing system appointed in accordance with the terms of the Notes and the Fiscal Agency Agreement, notices to the Holders may be given by delivery of the relevant notice to the clearing systems in accordance with the applicable rules and procedures of the clearing systems for communication by them to entitled accountholders. Any such notice shall be deemed validly given on the day after it has been delivered to Euroclear, Clearstream or an alternative clearing system.

Singapore Paying Agent

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

USE OF PROCEEDS

The net proceeds to the Issuer from this offering (after deducting underwriting commissions but not other estimated expenses relating to the offering) are expected to be US$199,200,000. The Issuer intends to use such net proceeds to finance or refinance, in part or in full, new and/or existing Eligible Assets or Eligible Projects (as defined in the Sustainability Bond Framework). See "*Sustainability Bond Framework*."

The Issuer expects the amount equal to the net proceeds of the sale of Notes to be fully allocated to Eligible Assets or Eligible Projects within one year of the issue date of the Notes in accordance with the evaluation and selection process described in the Sustainability Bond Framework. Any portion of the net proceeds from the Notes that has not yet been allocated to Eligible Assets or Eligible Projects may temporarily be invested in cash, deposits and money market instruments in accordance with the Issuer's investment guidelines.

SUSTAINABILITY BOND FRAMEWORK

The Issuer's Sustainability Objectives

In line with the Lotte Group's strategies and policies, the Issuer aims to combine economic growth with environmental and social responsibilities. As such, the Issuer's operations incorporate ambitious sustainability practices, as reflected by the environmental credentials of the Lotte World Tower, the Issuer's main asset, which demonstrates the Issuer's ambition to align with the best environmental standards while integrating social benefits.

The Issuer has incorporated environmental and social benefits during the construction of Lotte World Tower, as evidenced by its Leadership in Energy and Environmental Design ("**LEED**") certification, which is a green programme rating system established by the U.S. Green Building Counsel. The Lotte World Tower received the "Gold" LEED certification in April 2017, demonstrating high sustainability performance especially with respect to sustainable sites (scoring 20 of 26), water efficiency (scoring 10 of 10) and energy and atmosphere (received all "yes" for fundamental commissioning of the building energy systems, minimum energy performance and fundamental refrigerant management).

The Issuer has also demonstrated a strong commitment towards supporting the local community. In accordance with the aim of making a positive social contribution towards its local community, the Issuer operates several corporate volunteering programs which include activities for underprivileged local children or services to isolated local seniors.

The Issuer will continue to pursue sustainable growth, incorporating both environmental and social aspects, in line with the Lotte Group's strategies and policies, and aim to provide clear reporting on outcomes to its clients and investors.

Rationale for the Sustainability Bonds

The Issuer is convinced that Sustainability Bonds are an effective tool to channel liquidity into assets which have environmental and social benefits and thereby contribute to the achievement of the United Nations Sustainable Development Goals.

The Issuer has therefore designed this Sustainability Bond Framework in accordance with the 2018 Green Bond Principles and the 2018 Sustainability Bond Guidelines to provide investors with best-in-class Sustainability Bonds, in line with the best market practices in terms of transparency, impact reporting, and commitments.

Lastly, given the growing sustainability bond market in Korea, the Issuer believes that it has a key role to play in providing benchmark and guidelines to other Korean issuers with an intention to access the market, thereby contributing to the overall growth of Korea's Sustainability Bond market.

Application of the 2018 Green Bond Principles and the 2018 Sustainability Bond Guidelines

The Issuer has prepared this Sustainability Bond Framework in accordance with the 2018 Green Bond Principles and 2018 Sustainability Bond Guidelines, and has elected to issue Sustainability Bonds with a particular focus on the following areas:

- green buildings which meet regionally-, nationally- or internationally-recognized standards of certifications while integrating social benefits;
- clean public transportation infrastructure and sustainable mobility.

The 2018 Green Bond Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuing Green Bonds. In line with the 2018 Green Bond Principles and 2018 Sustainability Bond Guidelines, the Sustainability Bond Framework is presented through the following key pillars:

- use of proceeds;
- process for project evaluation and selection;
- management of proceeds;
- reporting; and
- external review.

Use of Proceeds

An amount equivalent to the proceeds from the issuance of Sustainability Bonds will be exclusively used to finance or refinance, in whole or in part, Eligible Assets and Eligible Projects as defined below.

Category 1: Green Commercial Buildings

"**Eligible Assets**" refer to commercial buildings which meet all of the following eligibility criteria:

- achievement of LEED "Gold" or equivalent certification within the last five years;
- construction or renovation completed during or after 2017;
- contribution to the improvement of professional conditions of low-income individuals working within the green building.

Category 2: Clean Public Transport Infrastructure and Sustainable Mobility

"**Eligible Projects**" will cover investments in infrastructure aiming to encourage and facilitate the use of clean public transportation and sustainable mobility solutions in the vicinity of the Issuer's commercial buildings, including, but not limited to:

(i) pedestrian infrastructure;

(ii) public bicycle infrastructure; and

(iii) public bus-related infrastructure.

Proceeds from the Issuer's Sustainability Bonds will not be allocated to infrastructure contributing to encourage or increase the use of cars.

By contributing to the development of sustainable and resilient buildings and sustainable urban mobility, the Issuer's Sustainability Bonds will support achieving the United Nations Sustainable Development Goal 11, "Sustainable Cities and Communities".

Process for Project Evaluation and Selection

A dedicated Sustainability Bond Committee (the "**Committee**") has been created to ensure compliance with the Sustainability Bond Framework and oversee the entire issuance process. The Committee is composed of the representatives from the Finance & Accounting Team, the Risk Management Group and the Information Technology Group and Lotte Group's Corporate Social Responsibility Team. The Issuer will therefore ensure that the selected Eligible Assets and Eligible Projects comply not only with the requirements set out in "— *Use of Proceeds*" above but also with other environmental and social guidelines applicable to the Issuer.

The Committee will also be responsible for managing any future updates to the Sustainability Bond Framework, including any expansion of the use of proceeds requirements. Any changes to the Sustainability Bond Framework will be published on the Issuer's website (https://www.lwt.co.kr/lottepnd/main.do).

Management of Proceeds

In accordance with the evaluation and selection process presented above, the proceeds from Sustainability Bonds will be allocated to Eligible Assets and Eligible Projects and managed by the Issuer's Finance & Accounting Team in consultation with the Committee.

The Issuer has committed on a best effort basis to allocate all proceeds from issuances of Sustainability Bonds to Eligible Assets and Eligible Projects within one year of the issuance of the relevant Sustainability Bonds in accordance with the evaluation and selection process presented above.

The Issuer will monitor the allocation of proceeds to Eligible Assets and Eligible Projects and track the net proceeds through its internal accounting system. Pending the allocation of proceeds to Eligible Assets and Eligible Projects, unallocated proceeds may temporarily be invested in accordance with the Issuer's investment guidelines in cash, deposits and money market instruments.

During the life of the Sustainability Bonds issued, if the designated Eligible Assets or Eligible Projects are sold or cease to fulfil the eligibility criteria, the net proceeds will be reallocated as soon as reasonably practicable to replacement Eligible Assets or Eligible Projects that comply with the eligibility criteria.

Reporting

The Issuer intends to produce annually and at least until the full allocation of the net proceeds from Sustainability Bonds, a "Sustainability Newsletter", which will include an "allocation reporting" and "impact reporting", as per below.

The Issuer's allocation reporting will cover (a) the list of Eligible Assets and Eligible Projects financed or refinanced, (b) the amount allocated to Eligible Assets and Eligible Projects and (c) the amount of unallocated proceeds at the end of the reporting period (if any).

The Issuer has also committed to report, on a best effort basis, on relevant impact metrics, which may include:

- Impact reporting on green commercial buildings (category 1) covering metrics measuring (a) environmental benefits, such as estimated *ex-ante* annual energy consumption in KWh/m2, estimated annual greenhouse gas emissions reduced/avoided in tons of CO^2 equivalent and percentage of the annual energy consumption self-produced by the relevant green building, and (b) social benefits, such as number of low-income individuals who benefitted from an improvement of their salary.

- Impact reporting on clean public transportation infrastructure and sustainable mobility (category 2) covering impact metrics such as estimated capacity of public bicycle infrastructure (in number of bikes), estimated capacity of public bus infrastructure (in number of buses), and estimated capacity of pedestrian infrastructure (in number of pedestrians).

The Sustainability Newsletter will be made available on the Issuer's website (https://www.lwt.co.kr/lottepnd/main.do).

External Review

Sustainalytics has been appointed as an independent third party to provide assurance on the Sustainability Bond Framework and its alignment with the 2018 Green Bond Principles and the 2018 Sustainability Bond Guidelines. The opinion from Sustainalytics ("**Second Party Opinion**") will be made available on the Issuer's website (https://www.lwt.co.kr/lottepnd/main.do).

CAPITALIZATION OF THE BANK

The following table sets forth the Bank's capitalization, defined as the sum of its borrowings and debentures and its equity, as of March 31, 2018:

	As of March 31, 2018[1]
	(in billions of Won)
Borrowings and debentures[2]	₩ 34,704
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	253
Retained earnings	17,729
Non-controlling interests in equity	—
Total equity	25,223
Total capitalization	₩ 59,927

Notes:

(1) There has been no material change in the capitalization of the Bank since March 31, 2018.

(2) Consists of borrowings of ₩14,398 billion and debentures of ₩20,306 billion.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Period	At End of Period	Average Rate[(1)]	High	Low
	(Won per US$1.00)			
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
2018 (through July 31)	1,116.7	1,082.7	1,135.2	1,057.6
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March	1,066.5	1,071.9	1,081.9	1,064.3
April	1,076.2	1,067.8	1,079.7	1,057.7
May	1,081.3	1,076.4	1,083.8	1,066.6
June	1,121.7	1,092.8	1,121.7	1,067.9
July (through July 31)	1,116.7	1,122.8	1,135.2	1,112.3

Source: Seoul Money Brokerage Services, Ltd.

Note:

(1) The average rate for each year is calculated as the average of the Market Average Exchange Rates on each business day during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the Market Average Exchange Rates on each business day during the relevant month (or portion thereof).

SELECTED FINANCIAL AND OPERATING DATA OF THE BANK

Selected Financial Data

The selected financial data as of and for the years ended December 31, 2016 and 2017 set forth below have been derived from the Bank's audited annual consolidated financial statements included elsewhere in this Offering Circular, which have been prepared in accordance with Korean IFRS. The selected financial data as of March 31, 2018 and for the three months ended March 31, 2017 and 2018 have been derived from the Bank's unaudited interim consolidated financial statements included elsewhere in this Offering Circular, which have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. See "*Independent Accountants*" for information about the Bank's independent accountants.

Korean IFRS 1109 *Financial Instruments* is effective for annual periods beginning on or after January 1, 2018 and replaces Korean IFRS 1039 *Financial Instruments: Recognition and Measurement.* See Note 2.1 of the notes to the Bank's annual consolidated financial statements included elsewhere in this Offering Circular. The Bank has applied Korean IFRS 1109 in its interim consolidated financial statements as of and for the three months ended March 31, 2018 included elsewhere in this Offering Circular. As permitted by the transition rules of Korean IFRS 1109, the Bank's comparative interim consolidated financial statements for the three months ended March 31, 2017 included elsewhere in this Offering Circular have not been restated to retroactively apply Korean IFRS 1109. Due to the application of Korean IFRS 1109, the Bank's financial data as of and for the three months ended March 31, 2018 set forth below may not be directly comparable to corresponding data as of prior dates and for prior periods. For information regarding the impact of the application of Korean IFRS 1109 to the Bank's consolidated financial statements, see Notes 2.1 and 42 of the notes to the Bank's interim consolidated financial statements included elsewhere in this Offering Circular.

You should read the following data together with the Bank's annual and interim consolidated financial statements included elsewhere in this Offering Circular. Historical results do not necessarily predict future results.

	Years ended December 31,		For the three months ended March 31,	
	2016	**2017**	**2017**	**2018[(1)]**
	(in billions of Won)			
Consolidated statements of comprehensive income				
Interest income	₩ 7,894	₩ 8,338	₩ 2,011	₩ 2,309
Interest income from financial instruments at fair value through other comprehensive income and amortized cost	—	—	—	2,259
Interest income from financial instruments at fair value through profit or loss	—	—	—	50
Interest income from loans and receivables	—	—	1,973	—
Interest income from financial instruments at fair value through profit or loss (under K-IFRS 1039)	—	—	39	—
Interest expense	(3,065)	(2,944)	(708)	(844)
Net interest income	4,829	5,394	1,303	1,465

	Years ended December 31,		For the three months ended March 31,	
	2016	2017	2017	2018[1]
	(in billions of Won)			
Fee and commission income	1,310	1,471	367	408
Fee and commission expense	(223)	(247)	(57)	(62)
Net fee and commission income	1,088	1,225	309	345
Net gains (losses) on financial assets/liabilities at fair value through profit or loss (under K-IFRS 1039)	197	99	(42)	—
Net losses on financial assets/liabilities at fair value through profit or loss	—	—	—	(13)
Net other operating income (expenses)	(401)	(288)	51	(105)
General and administrative expenses	(4,269)	(3,666)	(840)	(847)
Operating profit before provision for credit losses	1,444	2,764	782	845
Provision for credit losses	(254)	(115)	(147)	(31)
Operating profit	1,189	2,649	635	814
Share of profit of associates	18	38	10	11
Net other non-operating income (expenses)	49	(73)	28	113
Net non-operating profit (loss)	67	(36)	37	124
Profit before income tax expense	1,256	2,613	672	938
Income tax expenses	(292)	(439)	(9)	(248)
Profit for the period	₩ 964	₩ 2,175	₩ 663	₩ 690
(Adjustment in profit after provision of regulatory reserve for credit losses)	798	2,025	686	587
Items that will not be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	8	14	(3)	(4)
Net gains on equity instruments at fair value through other comprehensive income	—	—	—	39
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustments	(5)	(67)	(40)	13
Gains (losses) on valuation of financial investments	(2)	110	71	—
Net gains on debt instruments at fair value through other comprehensive income	—	—	—	10
Share of other comprehensive income (loss) of associates	(0)	92	21	(2)
Gains (losses) on hedging instruments of net investments in foreign operations	(7)	27	7	2
Gains (losses) on cash flow hedging instruments	0	7	(0)	8
Other comprehensive income (loss) for the period, net of tax	(6)	183	56	65
Total comprehensive income for the period	₩ 958	₩ 2,358	₩ 719	₩ 755

	Years ended December 31,		For the three months ended March 31,	
	2016	2017	2017	2018[(1)]
	(in billions of Won)			
Profit attributable to:				
Shareholders of the parent company	₩ 964	₩ 2,175	₩ 663	₩ 690
Non-controlling interests	—	—	—	—
	₩ 964	₩ 2,175	₩ 663	₩ 690
Total comprehensive income attributable to:				
Shareholders of the parent entity	₩ 958	₩ 2,358	₩ 719	₩ 755
Non-controlling interests	—	—	—	—

Note:

(1) Figures for the three months ended March 31, 2018 reflect the application of Korean IFRS 1109 and therefore may not be directly comparable to figures for prior periods. See Notes 2.1 and 42 of the notes to the Bank's interim consolidated financial statements included elsewhere in this Offering Circular.

	As of December 31,		As of March 31,
	2016	2017	2018[(1)]
	(in billions of Won)		
Consolidated balance sheet data			
Assets			
Cash and due from financial institutions	₩ 14,682	₩ 15,646	₩ 18,320
Financial assets at fair value through profit or loss (under K-IFRS 1039)	7,956	8,409	—
Financial assets at fair value through profit or loss	—	—	14,628
Derivative financial assets	2,796	2,608	2,321
Loans	236,551	251,711	256,880
Financial investments	35,732	40,816	38,081
Investments in associates	368	346	345
Property and equipment	3,117	3,016	2,995
Investment property	373	338	337
Intangible assets	211	218	217
Current income tax assets	12	3	4
Deferred income tax assets	48	2	2
Assets held for sale	27	156	26
Other assets	5,193	6,500	7,486
Total assets	₩ 307,066	₩ 329,766	₩ 341,641

	As of December 31,		As of March 31,
	2016	2017	2018[(1)]
	(in billions of Won)		
Liabilities			
Financial liabilities at fair value through profit or loss (under K-IFRS 1039)	₩ 73	₩ 74	₩ —
Financial liabilities at fair value through profit or loss	—	—	79
Derivative financial liabilities	2,834	2,609	2,393
Deposits	235,736	252,479	259,077
Debts	15,934	15,811	17,555
Debentures	14,960	19,184	20,306
Provisions	425	358	343
Net defined benefit liabilities	71	9	46
Current income tax liabilities	5	4	3
Deferred income tax liabilities	0	172	187
Other liabilities	13,703	13,744	16,429
Total liabilities	283,741	304,442	316,418
Equity			
Capital stock	2,022	2,022	2,022
Capital surplus	5,220	5,220	5,220
Accumulated other comprehensive income	495	678	253
Retained earnings	15,589	17,404	17,729
(Provision of regulatory reserve for credit losses)	(1,835)	(2,001)	(2,151)
(Amounts estimated to be appropriated)	(166)	(150)	3
Equity attributable to shareholders of the parent company	23,325	25,323	25,223
Non-controlling interest equity	—	—	—
Total equity	23,325	25,323	25,223
Total liabilities and equity	₩ 307,066	₩ 329,766	₩ 341,641

Note:

(1) Figures as of March 31, 2018 reflect the application of Korean IFRS 1109 and therefore may not be directly comparable to figures as of prior dates. See Notes 2.1 and 42 of the notes to the Bank's interim consolidated financial statements included elsewhere in this Offering Circular.

Selected Operating Data

Unless otherwise stated, the selected ratios and other operating data set forth below as of and for the years ended December 31, 2016 and 2017 and as of and for the three months ended March 31, 2017 and 2018 have been calculated based on the separate financial statements of the Bank prepared in accordance with Korean IFRS, which are not included in this Offering Circular.

Due to the application of Korean IFRS 1109, the Bank's operating data as of and for the three months ended March 31, 2018 set forth below may not be directly comparable to corresponding data as of prior dates and for prior periods. For information regarding the impact of the application of Korean IFRS 1109 to the Bank's consolidated financial statements, see Notes 2.1 and 42 of the notes to the Bank's interim consolidated financial statements included elsewhere in this Offering Circular.

	As of or for the years ended December 31,		For the three months ended March 31,	
	2016	2017	2017	2018[10]
Profit as a percentage of:				
Average total assets[1]	0.33%	0.73%	1.00%	0.84%
Average equity[1]	4.17	9.22	12.90	10.99
Ratio of non-performing credits to total credits[2]	0.61	0.48	0.62	0.49
Ratio of allowance to total credits[2]	1.46	1.35	1.49	1.41
Net interest spread[3]	1.54	1.67	1.63	1.68
Net interest margin[4]	1.58	1.71	1.66	1.71
Total capital adequacy ratio[5][9]	16.32	16.01	16.65	15.81
Tier I capital adequacy ratio[6][9]	14.83	14.86	15.41	14.90
Common equity Tier I capital adequacy ratio[7][9]	14.83	14.86	15.41	14.90
Tier II capital adequacy ratio[8][9]	1.49	1.15	1.24	0.91

Notes:

(1) Derived by dividing profit (annualized, for interim periods) 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 (annualized, for interim periods) 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. See "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Capital Adequacy.*"

(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. See "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Capital Adequacy.*"

(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. See "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Capital Adequacy.*"

(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. See "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Capital Adequacy.*"

(9) Calculated based on the consolidated financial statements of the Bank prepared in accordance with Korean IFRS.

(10) Figures as of and for the three months ended March 31, 2018 reflect the application of Korean IFRS 1109 and therefore may not be directly comparable to figures as of prior dates and for prior periods. See Notes 2.1 and 42 of the notes to the Bank's interim consolidated financial statements included elsewhere in this Offering Circular.

THE ISSUER

You should read the following summary as an introduction to the business of the Issuer and in conjunction with the Issuer's annual financial statements included elsewhere in this Offering Circular.

Overview

The Issuer is a property development company in Korea engaged in development and operation of high-rise, multi-purpose shopping mall, eco-friendly business projects and property and lease services business. The Issuer currently operates the Lotte World Tower, a 123-story, 555-meter skyscraper with a land area of 87,183 square meters, and the Lotte World Mall, the largest shopping complex in Korea, in Jamsil, Seoul.

The Lotte World Tower and Mall comprise the following:

- **Lotte World Tower**: *Signiel Seoul*, a world-class, six-star luxury hotel with 230 rooms; *Signiel Residences*, a high-quality "officetel" designed to create a productive business environment; *Primier 7*, a premium office space offered exclusively to seven people in the world; *Prime Office*, a smart office space for leading global businesses; *SeoulSky*, the highest observation deck in Korea, located 500 meters aboveground; and *Podium*, multi-purpose facilities including a premium healthcare center, an aesthetics clinic, a finance center and a travel service agency; and

- **Lotte World Mall**: *Avenuel*, Korea's largest premium department store; *Lotte Duty-Free,* premium boutique duty-free stores; *Lotte World Mall,* a premium lifestyle shopping mall providing rich cultural, artistic and culinary experiences; *Lotte Hi-Mart*, a high-end electronics store; *Lotte Mart,* the largest supermarket in Korea; *Lotte Cinema,* the largest megaplex in Asia with 21 screens and more than 4,600 seats; *Lotte World Aquarium,* Korea's largest urban aquarium offering spectacular underwater experience; and *Lotte Concert Hall,* Korea's first vineyard-style classical music concert hall with 2,000 seats.

Moreover, the Lotte World Tower and Mall are equipped with a number of cutting-edge features designed for superior energy efficiency and sustainability, including: a green rooftop to create thermal insulation to save energy for heating and cooling; insulated glasses to reduce heat loss and block summer heat gain; water treatment facilities to recycle wastewater and store rainwater; high efficiency facilities; solar panels built on the rooftop to heat water and air; wind power built on the rooftop and the surrounding areas; a geothermal cooling and heating system; and a waste heat recycling system using heat source of wastewater to heat water.

History

The Issuer was incorporated on June 15, 1982. On December 14, 1987, the Issuer acquired the building site for the Lotte World Tower and Mall in Jamsil, Seoul and, on May 19, 1998, received the construction permit to build a 36-story building on such site. Thereafter, following years of discussions with the relevant government authorities in respect of the maximum height limitation and related environmental assessments, on November 11, 2010, the Issuer successfully acquired the construction permit to build a 123-story building aboveground on the site. The Issuer opened the Lotte World Mall on October 14, 2014 and, following the completion of construction on February 9, 2017, opened the Lotte World Tower on April 3, 2017.

The Issuer is a member company of the Lotte Group, which was founded in 1967 with the incorporation of Lotte Confectionary Co., Ltd. and was one of the five largest business groups in Korea in terms of combined assets as of December 31, 2017, according to the Korea Fair Trade

Commission. The Lotte Group comprised 92 companies, 10 of which were listed on the Korea Exchange, as of December 31, 2017. The Lotte Group has evolved from its origins as a confectionary company into a major business group, with interests in the food and beverage, retail distribution, tourism and service and chemical, engineering and construction and manufacturing industries.

Revenues

The Issuer's business operations comprise the development and operation of the Lotte World Tower and Mall. The Issuer currently derives revenues principally through rental income, property sales and property management fees. Rental payments by the tenants to which the Issuer leases spaces in the Lotte World Tower and Mall are calculated either as a percentage of the total sales generated at the concession or as a fixed monthly amount. Revenues from property sales are derived from sales of the private offices (*Primier 7*) and residences (*Signiel Residences*) in the Lotte World Tower. Revenues from property management fees are derived from the services provided by the Issuer, such as cleaning, security, facility maintenance and other services. The Issuer charges a flat maintenance fee to the tenants of the Lotte World Tower and Mall.

Competition

The property development and operation industry in Korea is highly competitive. Nevertheless, given the Issuer's historical and current scope of business, which has focused on development and operation of the Lotte World Tower and Mall, the Issuer believes that it currently does not face significant competition from other players in the Korean property development and operation industry. If, however, the Issuer decides in the future to expand its scope of business to cover development and operation of properties other than the Lotte World Tower and Mall or other properties of the Lotte Group, the Issuer may begin to face increased competition from other players in the industry. Some of the competitors of the Issuer may have greater industry knowhow, greater financial resources, greater economies of scale and lower cost bases, any of which may give them a competitive advantage over the Issuer.

Properties

The Issuer operates the Lotte World Tower and Mall, which is 75 per cent. owned by the Issuer. The Issuer's principal shareholders, Hotel Lotte Co., Ltd. and Lotte Shopping Co., Ltd., respectively own 10 per cent. and 15 per cent. of the Lotte World Tower and Mall. The Issuer's registered offices are located inside the Lotte World Tower, at 300, Olympic-ro, Songpa-gu, Seoul, Korea.

Legal Proceedings

The Issuer may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business. As of the date of the Offering Circular, the Issuer is not involved in any litigation or other legal proceedings, the outcome of which would, in the reasonable judgment of the its management, have a material adverse effect on the financial condition or results of operations of the Issuer.

THE BANK

Business

Overview

The Bank is one of the largest commercial banks in Korea in terms of total assets (including loans). As of December 31, 2017, the Bank had total assets of ₩329,766 billion and total deposits of ₩252,479 billion.

The Bank provides credit and related financial services to individuals and SMEs and, to a lesser extent, to large corporate customers. The Bank also 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 network of 1,062 branches as of December 31, 2017, one of the most extensive 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, smartphone and Internet banking. As of December 31, 2017, the Bank had a customer base of approximately 31.2 million retail customers, which represented over 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,								
	2015			2016			2017		
	(in billions of Won, except percentages)								
Retail	₩	115,780	51.6%	₩	123,627	52.2%	₩	130,224	51.8%
Corporate		107,365	47.8		111,808	47.2		119,080	47.3
Foreign		1,272	0.6		1,337	0.6		2,204	0.9
Total loans	₩	224,417	100.0%	₩	236,772	100.0%	₩	251,508	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 home equity loan provider 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 (registration number: 110111-2365321) and operates pursuant to the Bank Act of 1950, as amended (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 BOK, the BOK's Monetary Policy Committee (the "**MPC**"), the FSC and its executive body, the FSS. The Bank's registered office is located at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea (telephone: + (822) 2073-7114).

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 Inc. ("**KB Financial Group**") became the holding company of the Bank and eight additional entities that were originally the Bank's subsidiaries. See "*— History and Development — Establishment of KB Financial Group*." Currently, the Bank is a wholly-owned subsidiary of KB Financial Group and the Bank's operating subsidiaries comprise Kookmin Bank Int'l Ltd. (London), Kookmin Bank Cambodia PLC, Kookmin Bank (China) Ltd. and KB Microfinance Myanmar Co., Ltd. Kookmin Bank Hong Kong Ltd., previously one of the Bank's operating subsidiaries, converted to a branch as of January 4, 2017. 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, 2017:

	As of December 31, 2017			Year ended December 31, 2017	
Subsidiaries	**Percentage of ownership**	**Total assets**	**Equity**	**Operating revenue**	**Profit (Loss) for the period**
	(in millions of Won, except percentages)				
Kookmin Bank Int'l Ltd. (London)	100.0%	₩ 506,474	₩ 83,222	₩ 15,931	₩ 3,022
Kookmin Bank Cambodia PLC	100.0%	133,133	56,453	8,267	984
Kookmin Bank (China) Ltd.	100.0%	2,007,154	400,720	70,142	1,118
KB Microfinance Myanmar Co., Ltd.	100.0%	10,372	9,972	623	(664)

Further information regarding the Bank's subsidiaries is provided below:

- *Kookmin Bank Int'l Ltd. (London)* was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.

- The Bank acquired a controlling interest in *Kookmin Bank Cambodia PLC* (formerly Khmer Union Bank) in May 2009, to enable the Bank to provide various banking services in Cambodia.

- *Kookmin Bank (China) Ltd.* was established in China in November 2012 to provide a broad range of corporate banking services.

- *KB Microfinance Myanmar Co., Ltd.* was established in Myanmar in March 2017 to provide a variety of microfinance-related services.

History and Development

History of the Former Kookmin Bank

The former Kookmin Bank was established by the Government in 1963 under its original name of Citizens National Bank under the Citizens National Bank Act of Korea with majority government ownership. Under this Act, the Bank was limited to providing banking services to the general public and to SMEs. In September 1994, Citizens National Bank completed its initial public offering in Korea and listed its shares on the KRX KOSPI Market of the Korea Exchange (the "**KRX KOSPI Market**").

In January 1995, the Citizens National Bank Act of Korea was repealed and replaced by the Repeal Act of the Citizens National Bank Act. Citizens National Bank's status was changed from a specialized bank to a nationwide commercial bank and in February 1995, it changed its name to Kookmin Bank. The Repeal Act allowed the former Kookmin Bank to engage in lending to large businesses.

History of Housing & Commercial Bank

Housing & Commercial Bank ("**H&CB**") was established by the Government in 1967 under the name Korea Housing Finance Corporation. In 1969, Korea Housing Finance Corporation became the Korea Housing Bank pursuant to the Korea Housing Bank Act. H&CB was originally established to provide low and middle income households with long-term, low-interest mortgages in order to help them purchase their own homes, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Until 1997 when the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea allowed to provide mortgage loans with a term of longer than ten years. H&CB also had the exclusive ability to offer housing-related deposit accounts offering preferential rights to subscribe for newly-built apartments.

The Merger of the Former Kookmin Bank and H&CB

Effective November 1, 2001, the former Kookmin Bank and H&CB merged into a new entity named Kookmin Bank. This merger resulted in the Bank becoming the largest commercial bank in Korea by total assets (including loans), according to the data compiled by the FSS. American depositary shares ("**ADSs**") representing the Bank's common stock were listed on the New York Stock Exchange on November 1, 2001 and its common stock was listed on the KRX KOSPI Market on November 9, 2001.

The Merger with Kookmin Credit Card

On May 30, 2003, the Bank entered into a merger agreement with Kookmin Credit Card, previously a 75 per cent. owned and consolidated subsidiary. On July 23, 2003, the Bank's board approved the merger with Kookmin Credit Card and on September 5, 2003, the merger was approved by the shareholders of Kookmin Credit Card. On September 30, 2003, the Bank merged with Kookmin Credit Card.

Establishment of KB Financial Group

KB Financial Group was established on September 29, 2008 pursuant to a comprehensive stock transfer under Article 360-15 of the Korean Commercial Code, whereby holders of the common stock of the Bank and certain of its subsidiaries transferred all of their shares to KB Financial Group, a new financial holding company, and in return received shares of KB Financial Group's common stock. In the stock transfer, each holder of one share of the Bank's common stock received one share of KB Financial Group's common stock, par value ₩5,000 per share. Holders of the Bank's ADSs and global depositary shares, each of which represented one share of the Bank's common stock, received one of KB Financial Group's ADSs for every ADS or global depositary share they owned. In addition, holders of the common stock of KB Investment & Securities Co., Ltd., KB Asset Management Co., Ltd., KB Real Estate Trust Co., Ltd., KB Investment Co., Ltd., KB Futures Co., Ltd., KB Credit Information

Co., Ltd. and KB Data Systems Co., Ltd., all of which were the Bank's subsidiaries, transferred all of their shares to KB Financial Group and, as consideration for such transferred shares, received shares of KB Financial Group's common stock in accordance with the specified stock transfer ratio applicable to each such subsidiary. Following the completion of the stock transfer, the Bank and the aforementioned subsidiaries of the Bank became KB Financial Group's wholly-owned subsidiaries. Following the stock transfer, KB Financial Group's common stock was listed on the KRX KOSPI Market on October 10, 2008 and its ADSs were listed on the New York Stock Exchange on September 29, 2008.

Spin-off of the Credit Card Business

On September 28, 2010, the board of directors of the Bank resolved to effect a horizontal spin-off of its credit card business, such that the business would be operated by a newly established sister company of the Bank that is wholly-owned by KB Financial Group. Pursuant to such resolution, the assets and liabilities of the Bank which were directly or indirectly related to its credit card business were transferred to a newly established company, KB Card, on February 28, 2011, and all of the shares of common stock of KB Card were distributed to KB Financial Group on March 2, 2011. Pursuant to the Korean Commercial Code, the Bank will remain jointly and severally liable for the spun-off liabilities of the credit card business and KB Card will be jointly and severally liable for the liabilities of the Bank existing as of the date of the spin-off, in each case for an indefinite period.

Branch Network

As of December 31, 2017, the Bank had 1,062 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, 2017:

	Number of Branches	Percentage
Area		
Seoul	377	35.5%
Six largest cities (other than Seoul)	254	23.9%
Other	431	40.6%
Total	1,062	100.0%

In addition, the Bank has continued to implement the specialization of its branch functions. Of its branch network as of December 31, 2017, the Bank had three 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, 2017, the Bank had 7,988 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 the branch level, reduce employee costs and improve profitability. The aggregate number of transactions conducted using the Bank's ATMs amounted to approximately 548 million in 2015, 495 million in 2016 and 460 million in 2017.

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,								
	2015			2016			2017		
	(in billions of Won, except percentages)								
Retail:									
Mortgage and home equity loans..........	₩	87,692	75.7%	₩	92,934	75.2%	₩	95,354	73.2%
Other consumer loans[(1)]		28,088	24.3		30,693	24.8		34,870	26.8
Total	₩	115,780	100.0%	₩	123,627	100.0%	₩	130,224	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 per cent. of the adjusted collateral value (except in areas of high speculation designated by the government where we generally limit our lending to between 40 per cent. to 60 per cent. 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 per cent. to 80 per cent. (40 per cent. to 70 per cent. 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 a maturity of one to five years and 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 12-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 0.9 per cent. to 1.5 per cent. 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. See "*Risk Management of the Bank — Credit Risk Management*."

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, 2017, 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 ₩165,906 billion as of December 31, 2017, or 65.7 per cent. 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 three years, and the term for instalment savings deposits ranges from six months to five 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*, which 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 instalment 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 instalments 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 salary income may also claim a tax deduction for 40 per cent. of its annual instalment amounts, subject to a maximum deductible amount, in its income tax return for the year under the Special Tax Treatment Control Law.

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, 2017, the Bank operated 21 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 per cent. See "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Liquidity*."

The Depositor Protection Act provides for a deposit insurance system where 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 "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Deposit Insurance System*." The Bank paid ₩381 billion in 2017 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, 2017, three 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,					
	2015		2016		2017	
	(in billions of Won, except percentages)					
Corporate:						
SME loans	₩ 77,005	71.8%	₩ 82,216	73.5%	₩ 90,265	75.8%
Large corporate loans	30,360	28.2	29,592	26.5	28,815	24.2
Total	₩ 107,365	100.0%	₩ 111,808	100.0%	₩ 119,080	100.0%

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 instalment 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 ₩81,492 billion as of December 31, 2017, or 32.3 per cent. 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 Framework Act on Small and Medium Enterprises and related regulations. Under the amended Framework Act on Small and Medium Enterprises, which became effective on April 27, 2016, 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 Framework Act on Small and Medium Enterprises 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 Framework Act on Small and Medium Enterprises must be met. However, even if an enterprise that qualified as an SME under the Framework Act on Small and Medium Enterprises prior to the amendment thereof no longer met the definition due to such amendments, such enterprise continued 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 Framework Act on Small and Medium Enterprises, may also qualify as SMEs.

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, 2017, the Bank had over 280,000 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, which is a periodic floating rate system that takes into account the current market interest rate.

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 per cent. 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 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 Bank's exposure 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, 2015, 2016 and 2017, 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 ₩39,400 billion, ₩43,689 billion and ₩49,224 billion and represented 13.6 per cent., 14.2 per cent. and 14.9 per cent. 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.

The following table sets forth the carrying amounts of the securities in the Bank's trading and investment portfolios as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in billions of Won)		
Financial assets at fair value through profit or loss			
Financial assets held for trading			
Debt securities:			
Government and public bonds	₩ 1,301	₩ 2,150	₩ 1,639
Financial bonds	3,134	3,658	3,727
Corporate bonds	1,438	1,446	2,025
Asset-backed securities	218	222	149
Others	196	217	360
Equity securities:			
Stocks	31	34	122
Beneficiary certificates	29	27	217
Others	69	72	74
Total financial assets held for trading	6,417	7,827	8,313
Financial assets designated at fair value through profit or loss			
Derivative linked securities	70	130	95
Total financial assets designated at fair value through profit or loss	70	130	95
Total financial assets at fair value through profit or loss	₩ 6,488	₩ 7,956	₩ 8,409
Financial investments Available-for-sale financial assets			
Debt securities:			
Government and public bonds	₩ 3,202	₩ 6,591	₩ 2,820
Financial bonds	6,377	8,370	15,839
Corporate bonds	3,534	4,117	6,741
Asset-backed securities	5,181	2,730	2,205
Equity securities:			
Stocks	1,440	1,776	1,923
Equity investments	41	148	144
Beneficiary certificates	1,387	3,572	2,405
Others	1	1	1
Total available-for-sale financial assets	21,163	27,305	32,078
Held-to-maturity financial assets			
Debt securities:			
Government and public bonds	1,870	1,534	1,303
Financial bonds	2,024	1,528	1,878
Corporate bonds	3,710	1,782	1,361
Asset-backed securities	4,144	3,583	4,195
Total held-to-maturity financial assets	11,749	8,427	8,737
Total financial investments	₩ 32,912	₩ 35,732	₩ 40,816

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 following table shows the estimated fair value of the Bank's derivatives as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)					
Foreign exchange derivatives[1]	₩ 1,110	₩ 1,091	₩ 2,060	₩ 2,066	₩ 2,011	₩ 2,002
Interest rate derivatives[1]	1,074	1,044	725	767	578	605
Equity derivatives	0	2	2	0	0	0
Others[1]	1	1	8	0	18	1
Total	₩ 2,186	₩ 2,139	₩ 2,795	₩ 2,833	₩ 2,607	₩ 2,608

Note:

(1) Includes those for trading purposes and hedging purposes.

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 derivatives trading activities to hedge the interest rate and foreign currency risk exposures 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 certain information regarding the Bank's foreign currency assets and borrowings:

	As of December 31,		
	2015	2016	2017
	(in billions of Won)		
Total foreign currency assets	₩ 20,157	₩ 20,661	₩ 23,907
Foreign currency borrowings:			
Debts	7,134	7,204	7,265
Debentures	3,783	3,469	2,940
Total borrowings	₩ 10,917	₩ 10,673	₩ 10,205

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

Branches	
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, 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, Hong Kong Branch	Hong Kong
Kookmin Bank Cambodia PLC, Toul Kork Branch	Cambodia
Kookmin Bank Cambodia PLC, Toul Tom Pounh Branch	Cambodia
Kookmin Bank Cambodia PLC, Tuek Thla Branch	Cambodia
KB Microfinance Myanmar Co., Ltd., Hlaingtharya Branch	Myanmar

Representative Offices	
Kookmin Bank, Gurgaon 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.

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 2017, the Bank's basic fees ranged from 0.1 per cent. to 2.0 per cent. 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 4.7 per cent. 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 Financial Investment Services and Capital Markets Act (the "**FSCMA**") and the regulations thereunder.

As of December 31, 2017, the total balance of the Bank's money trusts was ₩38,754 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 Korean 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,		
	2015	2016	2017
	(in billions of Won)		
Principal and interest guaranteed trusts[1]	₩ 0.2	₩ 0.2	₩ 0.1
Principal guaranteed trusts[1]	3,324	3,532	3,694
Performance trusts[1][2]	31,499	36,375	35,060
Total	₩ 34,823	₩ 39,907	₩ 38,754

Notes:

(1) Calculated on an SKAS basis.

(2) Trusts which are primarily non-guaranteed.

As of December 31, 2017, the trust assets the Bank managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2017, on an SKAS basis, the Bank's trust accounts had invested in securities in the aggregate amount of ₩19,000 billion, of which ₩15,179 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, 2017, on an SKAS basis, the Bank's trust accounts had made loans in the principal amount of ₩167 billion (excluding loans from the trust accounts to the Bank's banking accounts of ₩1,257 billion), which accounted for 0.4 per cent. 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, 2017, 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, 2017, equity securities in the Bank's money trust accounts amounted to ₩3,822 billion, which accounted for 9.9 per cent. of the Bank's total money trust assets. Of this amount, ₩3,752 billion was from specified money trusts and ₩70 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, 2017, the balance of the money trusts for which the Bank guaranteed the principal was ₩3,683 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 2015, 2016 and 2017, 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 2017, the Bank's property trust fees ranged from 0.001 per cent. to 0.3 per cent. of total assets under management depending on the type of trust accounts. On an SKAS basis, as of December 31, 2017, the aggregate balance of the Bank's property trusts increased to ₩7,769 billion, compared to ₩6,862 billion as of December 31, 2016.

Bancassurance

The Bank offers insurance products of other institutions to retail customers in Korea. The Bank currently markets a wide range of bancassurance products and seeks to generate additional fee-based revenues by expanding its offering of these products. As of December 31, 2017, 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 67 different products through the Bank's branch network.

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.

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.

Other Banking Channels

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

	For the year ended December 31,		
	2015	**2016**	**2017**
Internet banking:			
Number of users[(1)]	17,930,962	19,095,749	20,059,806
Number of transactions (thousands)[(2)]	4,755,832	5,094,063	5,427,142
Phone banking:			
Number of users[(3)]	4,955,278	4,989,769	5,020,272
Number of transactions (thousands)[(2)]	152,404	147,157	119,059
Smartphone banking:			
Number of users[(4)]	10,862,526	12,301,753	13,533,359
Number of transactions (thousands)[(2)]	4,083,426	5,169,324	6,192,633

Note:

(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 inquiries, 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 inquiries, pre-set automatic transfers, product inquiries, 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 inquiries, customer service inquiries 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 inquiries, 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 inquiries, 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 inquiries, 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.

The Bank also continues to develop innovative mobile applications that cater to specific customer needs and lifestyles. For example, the Bank offers "Liiv," a mobile banking platform designed to make routine transactions easier for the Bank's customers, including providing easy access to banking services without the additional electronic certification process, foreign currency exchange services with lower fees and functions that allow customers to easily split bills and transfer money. The Bank provides its customers with a number of other useful tools, such as "KB Star Alerts," which are free text messages that contain real-time account activity information as well as security alerts, and "KB My Money," a mobile application that allows customers to manage a wide range of assets deposited with various financial institutions.

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. The Bank also competes with other types of financial institutions in Korea, 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, non-life insurance companies, securities companies and other 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, the introduction of Internet-only banks in Korea is expected to increase competition in the Korean banking industry. Internet-only banks operate without branches and conduct most of their operations through electronic means, which enables them to minimize cost and offer customers higher interest rates on deposits or lower lending rates. In April 2017, K Bank, the first Internet-only bank in Korea, commenced operations. Kakao Bank, another Internet-only bank, in which the Bank holds a 10 per cent. equity interest, commenced operations in July 2017.

In addition, general regulatory reforms in the Korean financial industry have increased competition among banks and other 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.

Moreover, 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 as of December 31, 2017. A number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including Hana Financial Group's acquisition of a controlling interest in Korea Exchange Bank in 2012 and the subsequent merger of Hana Bank into Korea Exchange Bank in 2015. In addition, as part of the Government's plans to privatize Woori Finance Holdings Co., Ltd. (the 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 Korean 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.

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.

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. For additional information, see "*Risk Management of the Bank — Operational Risk Management.*"

Property, Plant and Equipment

The Bank's registered office and headquarters is located at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, Korea. The following table presents information regarding certain of the Bank's properties in Korea:

Type of facility/building	Location	Area (square metres)
Registered office and headquarters	Yeongdeungpo-gu, Seoul	5,354
Training institute	Ilsan	207,560
Training institute	Daecheon	4,158
Training institute	Sokcho	15,559
Training institute	Cheonan	196,649
IT center	Gangseo-gu, Seoul	13,116
IT center	Yeouido, Seoul	5,928
IT center	Yeouido, Seoul	2,006
Support center	Seongbuk-gu, Seoul	9,939

In addition, the Bank entered into a land purchase agreement in March 2016 to purchase a site of approximately 4,727 square meters located in Yeoido, Seoul, on which it plans to construct a new headquarters building (with a floor space of approximately 67,683 square meters) by 2020. The Bank also entered into a land purchase agreement in August 2016 to purchase a site of approximately 13,144 square meters located in Gimpo, in the outskirts of Seoul, in order to construct a new IT center (with a floor space of approximately 40,232 square meters) by 2019.

As of December 31, 2017, the Bank had a countrywide network of 1,062 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 Cambodia, China, Myanmar, the United States and the United Kingdom, and branches in Tokyo in Japan, Auckland in New Zealand, New York in the United States, Ho Chi Minh City in Vietnam and Hong Kong, as well as branches of Kookmin Bank Cambodia PLC in Toul Kork, Toul Tom Pounh and Tuek Thla in Cambodia and branches of Kookmin Bank (China) Ltd. in Beijing, Guangzhou, Harbin, Shanghai and Suzhou in China. The Bank also has representative offices in Gurgaon 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,		
	2015	2016	2017
Full-time employees[(1)]	19,855	19,882	16,925
Contractual employees	1,044	1,218	1,422
Managerial employees	11,034	11,023	9,799
Members of Korea Financial Industry Union	16,548	16,375	14,501

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.

In January 2016, KB Financial Group implemented a "mileage stock" program, pursuant to which it may grant to the Bank's and its subsidiaries' employees performance-based cash payments that correspond to the market value of KB Financial Group's common stock. The accumulated "miles" of common stock can be exercised for cash during a two-year period commencing on the one-year anniversary of the grant date.

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 per cent. of employee wages, and each employee contributes 4.5 per cent. 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 retirement pension plans for its employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement. 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. However, the Bank regularly invites its employees to apply for its early retirement programs, which provide for varying amounts of severance pay based on the duration of time an employee has worked for the Bank, along with several other key features. The Bank believes that such programs enhance its productivity and efficiency by improving its labor structure.

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 per cent. 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, 2017, the Bank's employee stock ownership association held 507,335 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 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. In September 2010, the case was transferred to the United States Bankruptcy Court for the Southern District of New York, where it is currently pending. 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 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 were further appealed to the Supreme Court of Korea in February 2016, where they are currently pending.

In February 2018, pursuant to a request by the FSS, the Supreme Prosecutors' Office of Korea commenced an investigation into alleged irregularities in hiring practices at five Korean banks, including the Bank. According to the allegations made by the FSS, the Bank unfairly gave favorable treatment to certain individuals, including relatives of the former president of the Bank (the current chairman and chief executive officer of KB Financial Group) and a former non-executive director of KB Financial Group, in connection with their hiring in 2015 and 2016. While the investigation is currently ongoing and, as of the date of this Offering Circular, there have been no formal charges or indictments against the Bank, certain employees of the Bank have recently been indicted in connection with such allegations. The trials against such individuals are currently ongoing.

ASSETS AND LIABILITIES OF THE BANK

The tables below set out selected financial highlights regarding the Bank's assets and liabilities, on a consolidated 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,		
	2015	2016	2017
	(in billions of Won)		
Domestic:			
Corporate			
SME	₩ 77,005	₩ 82,216	₩ 90,265
Large corporate[(1)]	30,360	29,593	28,815
Retail			
Mortgage and home equity	87,692	92,934	95,354
Other consumer	28,088	30,692	34,870
Total domestic	223,145	235,435	249,304
Foreign	1,272	1,337	2,204
Total gross loans	₩ 224,417	₩ 236,772	₩ 251,508

Note:

(1) Large corporate loans include loans to the Government or Government-related agencies (including KDIC).

Twenty Largest Exposures by Borrower

As of December 31, 2017, on a separate basis, the Bank's 20 largest exposures totalled ₩10,448 billion and accounted for 3.4 per cent. of its total exposures. The following table sets forth, on a separate basis, the Bank's total exposures to these top 20 borrowers or issuers as of December 31, 2017:

	Loans					
Company[(1)]	**Won Currency**	**Foreign Currency**	**Equity Securities**	**Debt Securities**	**Guarantees and Acceptances**	**Total Exposures**
	(in billions of Won)					
Samsung Electronics	₩ —	₩ 1,530	₩ —	₩ —	₩ —	₩ 1,530
Kia Motors	200	547	—	15	—	762
Mirae Asset Global Investment	—	—	588	—	—	588
KEB Hana Bank	67	302	—	215	—	584
Hyundai Capital Services	428	—	—	127	—	555
Agricultural Bank of China	—	536	—	—	—	536

Company[1]	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures
	(in billions of Won)					
POSCO	—	—	525	—	—	525
Bank of Communications	—	514	—	—	—	514
SK Holdings	—	—	495	—	—	495
Hyundai Steel	375	32	—	—	45	452
Hyundai Motor.	—	431	—	—	10	441
LG Display.	—	—	—	—	429	429
Samsung Heavy Industries.	—	—	—	—	413	413
POSCO Daewoo.	—	156	—	—	244	400
LG Electronics.	390	—	—	—	—	390
LS-Nikko Copper	—	181	—	—	208	389
S-Oil	81	246	—	—	43	370
Shinhan Financial Group	—	—	—	367	—	367
Goldman Sachs International	—	—	—	354	—	354
Daewoo Shipbuilding & Marine Engineering.	32	69	—	—	253	354
	₩ 1,573	₩ 4,544	₩ 1,608	₩ 1,078	₩ 1,645	₩ 10,448

Note:

(1) Excludes exposures to Government-owned or -controlled enterprises or financial institutions, including BOK, Korea Housing Finance Corporation, Korea Land & Housing Corporation, KDIC and Korea Development Bank.

As of December 31, 2017, 14 of these top 20 borrowers or issuers were companies belonging to the 36 largest highly-indebted business groups among *chaebols* in Korea designated as such by the FSS based on their outstanding exposures.

Exposure to *Chaebols*

As of December 31, 2017, on a separate basis, 7.7 per cent. of the Bank's total exposure was to the 36 largest highly-indebted business groups among *chaebols* in Korea designated as such by the FSS based on their outstanding exposures. The following table shows, on a separate basis, the Bank's total exposures to the ten *chaebol* groups to which it has the largest exposure as of December 31, 2017:

Chaebol	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures
	(in billions of Won)					
Samsung	₩ 335	₩ 2,000	₩ 706	₩ 586	₩ 574	₩ 4,201
Hyundai Motors	1,240	1,200	48	1,300	386	4,174
Hanwha	69	377	565	697	168	1,876
SK	644	138	35	714	54	1,585
Lotte	120	159	661	173	384	1,497
Posco.	422	18	122	271	520	1,353
Hyundai Heavy Industries.	771	100	153	169	22	1,215

Chaebol	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures
	(in billions of Won)					
LS	67	64	43	37	652	863
Daewoo Shipbuilding & Marine Engineering.	14	256	7	92	402	771
LG.	71	79	18	407	102	677
Total	₩ 3,753	₩ 4,391	₩ 2,358	₩ 4,446	₩ 3,264	₩ 18,212

Loan Concentration by Industry

The following table presents, on a separate basis, the aggregate balance of the Bank's domestic and foreign corporate loans, by industry concentration, as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
Industry	Amount	per cent.	Amount	per cent.	Amount	per cent.
	(in billions of Won, except percentages)					
Services	₩ 43,625	40.2%	₩ 47,488	42.0%	₩ 52,525	43.3%
Manufacturing	35,022	32.2	35,356	31.3	38,076	31.4
Wholesale and retail	13,408	12.3	13,669	12.1	14,124	11.7
Financial institutions	9,111	8.4	9,414	8.3	9,464	7.8
Construction	3,349	3.1	2,881	2.5	2,526	2.1
Public sector	754	0.7	805	0.7	817	0.7
Others	3,337	3.1	3,473	3.1	3,672	3.0
Total	₩ 108,606	100.0%	₩ 113,086	100.0%	₩ 121,204	100.0.%

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, 2017. The amounts disclosed are before deduction of allowances for loan losses:

	1 Year or Less	Over 1 year But Not More Than 5 Years	Over 5 Years	Total
		(in billions of Won)		
Domestic:				
Corporate				
SMEs	₩ 67,702	₩ 17,923	₩ 4,640	₩ 90,265
Large corporate	20,486	5,135	3,194	28,815
Total corporate	88,188	23,058	7,834	119,080
Retail				
Mortgage and home equity	11,248	7,384	76,722	95,354
Other consumer	23,684	7,309	3,877	34,870
Total retail	34,932	14,693	80,599	130,224
Total domestic	123,120	37,751	88,433	249,304
Foreign	1,636	486	82	2,204
Total gross loans	₩ 124,756	₩ 38,237	₩ 88,515	₩ 251,508

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, 2017:

	As of December 31, 2017
	(in billions of Won)
Fixed rate[(1)]	₩ 9,690
Variable or adjustable rates[(2)]	117,061
Total gross loans	₩ 126,751

Note:

(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.

For additional information regarding the Bank's management of interest rate risk, see "*Risk Management of the Bank — Market Risk Management.*"

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 expired on December 31, 2015. In March 2016, the National Assembly of Korea adopted a new Corporate Restructuring

Promotion Act, which expired on June 30, 2018. It is currently uncertain whether an act similar to the Corporate Restructuring Promotion Act will be enacted. In the meantime, the FSC plans to introduce a corporate restructuring management agreement that financial institutions such as the Bank may enter into for purposes of managing workouts in a manner similar to that under the Corporate Restructuring Promotion Act. However, as participation in the corporate restructuring management agreement will be voluntary, borrowers may be placed under court-supervised procedures if such agreement has not been executed by their creditor financial institutions.

Under the provisions of the Corporate Restructuring Promotion Act that expired on June 30, 2018, creditors of a financially troubled borrower could participate in a creditors' committee, which was 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 was determined at the initial meeting of the committee by the approval of creditors holding not less than 75 per cent. of the borrower's total outstanding debt held by creditors who were notified of the initial meeting of the committee. Although creditors that were not financial institutions or held less than 1 per cent. of the total outstanding debt of the borrower were not required to be notified of the initial meeting of the creditors' committee, if such creditors wished to participate, they could not be excluded; provided, that, such creditors could not oppose the decision made prior to their participation. Any decision of the creditors' committee required the approval of creditors holding not less than 75 per cent. of the total outstanding debt of the borrower. However, if a single creditor held 75 per cent. or more of the borrower's total outstanding debt held by the creditors comprising the creditors' committee, any decision of the creditors' committee required the approval of not less than 40 per cent. of the total number of creditors (including such single creditor) comprising the committee. An additional approval of creditors holding not less than 75 per cent. of the secured debt was required with respect to the borrower's debt restructuring. Once approved, any decision made by the creditors' committee was 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 had 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 opposed a decision made by the coordination committee could request a court to change such decision.

Upon approval of a 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, 2017, on a separate basis, the Bank's loans and guarantees to companies that were in workout, restructuring or rehabilitation amounted to ₩504 billion or 0.2 per cent. of the Bank's total loans and guarantees, most of which were classified as impaired.

The following table shows, on a separate basis, the Bank's ten largest credit exposures that were in workout, restructuring or rehabilitation as of December 31, 2017:

Company	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Amounts Classified as Impaired Loans
	(in billions of Won)						
Dongmoon Construction Co., Ltd.	₩ 70	₩ —	₩ —	₩ —	₩ —	₩ 70	₩ 70
Orient Shipyard Co., Ltd	49	2	—	—	—	51	51
Dongil Construction LTD	41	—	—	—	—	41	41
Ubcell Co., Ltd.	15	—	—	—	1	16	16
Dreample Co., Ltd.	—	13	—	—	1	14	14
Trans-Pacific Resources Ltd	—	10	—	—	4	14	14
Woojeon & Handan Co., Ltd	—	10	—	—	—	10	10
Shindongah E&C Co., Ltd	9	—	—	—	—	9	9
JM Advanced Materials	8	—	—	—	—	8	8
Echoroba Co., Ltd	8	—	—	—	—	8	8
Total	₩ 200	₩ 35	₩ —	₩ —	₩ 6	₩ 241	₩ 241

Provisioning Policy

The Bank establishes allowances for loan losses with respect to loans to absorb such losses. Under Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*, the Bank assessed individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if the Bank determined that no objective evidence of impairment existed for a loan, it included such loan in a group of loans with similar credit risk characteristics and assessed them collectively for impairment regardless of whether such loan was significant. For individually significant loans, allowances for loan losses were recorded if objective evidence of impairment existed as a result of one or more events that occurred after initial recognition. For collectively assessed loans, the Bank based 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.

Korean IFRS 1109 *Financial Instruments* is effective, and replaces International Accounting Standard 39, for annual periods commencing on or after January 1, 2018. Korean IFRS 1109 introduced a new impairment model which requires recording of allowance for credit losses based on expected losses instead of incurred losses (as was the case under Korean IFRS 1039), and recognition of any subsequent changes in expected credit losses in profit or loss. Under Korean IFRS 1109, the allowance required to be established with respect to a loan or receivable is the amount of the 12-month expected credit loss or the lifetime expected credit loss for the applicable loan or receivable, according to three stages of credit risk deterioration since initial recognition.

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.

Loan Aging Schedule

The following table shows, on a separate basis, the Bank's loan aging schedule (excluding accrued interest) as of the dates indicated:

As of December 31,	Normal Amount	%	Amount Past Due 1-3 Months	%	Amount Past Due 3-6 Months	%	Amount Past Due 6 Months or More	%	Total Amount
	(in billions of Won, except percentages)								
2015	₩ 223,405	99.5%	₩ 389	0.2%	₩ 237	0.1%	₩ 386	0.2%	₩ 224,417
2016	235,871	99.6	299	0.1	164	0.1	438	0.2	236,772
2017	250,808	99.7	253	0.1	132	0.1	314	0.1	251,508

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,		
	2015	2016	2017
	(in billions of Won, except percentages)		
Total non-performing loans	₩ 623	₩ 602	₩ 446
As a percentage of total loans	0.3%	0.3%	0.2%

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.

Analysis of Non-Performing Loans

The following table sets forth, on a separate basis, the Bank's total non-performing loans by type of borrower as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic:						
Corporate						
SMEs	₩ 254	40.8%	₩ 206	34.3%	₩ 148	33.2%
Large corporate	111	17.8	201	33.4	136	30.5
Total corporate	365	58.6	407	67.7	284	63.7
Retail						
Mortgage and home equity	170	27.4	122	20.4	100	22.4
Other consumer	78	12.6	70	11.6	62	13.9
Total retail	249	39.9	192	31.9	162	36.3
Total domestic	614	98.5	599	99.6	446	100.0
Foreign:	9	1.5	3	0.4	0	0.0
Total non-performing loans	₩ 623	100.0%	₩ 602	100.0%	₩ 446	100.0%

Top 20 Non-Performing Loans

As of December 31, 2017, the Bank's 20 largest non-performing loans accounted for, on a separate basis, 45.7 per cent. of its total non-performing loan portfolio. The following table shows, on a separate basis, certain information regarding the Bank's 20 largest non-performing loans as of December 31, 2017:

	Industry	Gross Principal Outstanding	Allowances for Loan Losses[1]
		(in billions of Won)	
Borrower A	Manufacturing	₩ 51	₩ 51
Borrower B	Services	42	42
Borrower C	Services	39	17
Borrower D	Manufacturing	17	3
Borrower E	Services	9	9
Borrower F	Manufacturing	8	4
Borrower G	Manufacturing	5	1
Borrower H	Services	4	4
Borrower I	Manufacturing	4	1
Borrower J	Services	3	2
Borrower K	Manufacturing	3	0
Borrower L	Services	3	0
Borrower M	Services	2	0
Borrower N	Manufacturing	2	0
Borrower O	Construction	2	0
Borrower P	Manufacturing	2	1
Borrower Q	Manufacturing	2	0
Borrower R	Manufacturing	2	0
Borrower S	Manufacturing	2	0
Borrower T	Services	2	0
Total		₩ 204	₩ 135

Note:

(1) If the estimated recovery value of collateral for a non-performing loan is sufficient compared to the outstanding loan balance, no allowances for loan losses for such non-performing loan is recorded.

Non-performing Loan Strategy

One of the Bank's primary objectives is to prevent the Bank's loans from becoming non-performing. Through the Bank's corporate credit rating systems, the Bank believes that it has reduced its risks relating to future non-performing loans. The Bank's credit rating systems are designed to prevent the Bank's loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating. The Bank's early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of the Bank's loan officers, who then closely monitor such loans. See "*Risk Management of the Bank — Credit Risk Management*."

Notwithstanding the above, if a loan becomes non-performing, an officer at the branch level responsible for monitoring non-performing loans will commence a due diligence review of the borrower's assets, send a notice either demanding payment or stating that the Bank will take legal action and prepare for legal action.

At the same time, the Bank will also initiate its non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying corporate loans subject to normalization efforts based on the cash flow situation of the borrower.

Once the details of a non-performing loan are identified, the Bank pursues early solutions for recovery. While the overall process is the responsibility of the Bank's Credit Division, actual recovery efforts on non-performing loans are handled at the operating branch level.

Methods for resolving non-performing loans include the following:

- non-performing loans are managed by the operating branches until such loans are charged off;
- a demand note is dispatched by mail if payment is generally one month past due;
- calls and visits are made by the operating branches to customers encouraging them to make payments;
- borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans;
- for unsecured loans, the loans are transferred to the Bank's affiliate, KB Credit Information, for collection on a case-by-case basis;
- for secured loans, actions to enforce or protect the security interests (including foreclosure and auction of the collateral) are commenced within four months of such loans becoming past due; and
- charged off loans are given to KB Credit Information for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

If a loan becomes non-performing, it is managed by an operating branch until such loan is charged off. However, in order to promote speedy recovery on loans subject to foreclosures and litigation, the Bank's policy is to permit the branch responsible for handling these loans to request one of the Bank's regional head offices for assistance with litigation proceedings and proceedings related to foreclosure and auction of the collateral.

In addition to making efforts to collect on these non-performing loans, the Bank also undertakes measures to reduce the level of the Bank's non-performing loans, which include:

- selling the Bank's non-performing loans to third parties, including the Korea Asset Management Corporation; and
- entering into asset securitization transactions with respect to the Bank's non-performing loans.

The Bank generally expects to suffer a partial loss on loans that it sells or securitizes, to the extent such sales and securitizations are recognized under Korean IFRS as sale transactions.

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,					
	2015		2016		2017	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
SME	₩ 737	36.7%	₩ 561	35.8%	₩ 487	35.1%
Large corporate	814	40.6	660	42.1	563	40.6
Total corporate	1,551	77.3	1,221	77.9	1,050	75.7
Retail						
Mortgage and home equity	35	1.7	23	1.4	19	1.4
Other consumer	397	19.8	310	19.8	299	21.5
Total retail	432	21.5	333	21.2	318	22.9
Total domestic	1,983	98.8	1,553	99.1	1,368	98.6
Foreign (1)	24	1.2	15	0.9	20	1.4
Total allowances for loan losses	₩ 2,007	100.0%	₩ 1,568	100.0%	₩ 1,388	100.0%

Note:

(1) Consists primarily of loans to corporations.

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

	For the year ended December 31,		
	2015	2016	2017
	(in billions of Won, except percentages)		
Balance at the beginning of the period	₩ 1,911	₩ 2,007	₩ 1,568
Amounts charged against income	794	281	163
Sale	(50)	(41)	(18)
Gross charge-offs:			
Domestic:			
Corporate			
SME	408	446	304
Large corporate	275	277	72
Retail			
Mortgage and home equity	15	6	5
Other consumer	281	246	269
Foreign:	0	2	—
Total gross charge-offs	(979)	(978)	(650)
Recoveries:			
Domestic:			
Corporate			
SME	153	199	273
Large corporate	0	0	—
Retail			
Mortgage and home equity	63	43	30
Other consumer	114	108	107
Foreign:	4	0	—
Total recoveries	333	350	410
Net charge-offs	(646)	(627)	(240)
Other charges	(2)	(52)	(83)
Balance, at the end of the period	₩ 2,007	₩ 1,568	₩ 1,388
Ratio of net charge-offs during the period to average loans outstanding during the period	0.3%	0.3%	0.1%

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 is 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, 2017, on a separate basis, the Bank's regulatory reserve for credit losses was ₩2,137 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	(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	Loans exceeding the amount that the Bank expects to collect of total loans to customers that: (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 12 months.
Estimated loss	Loans exceeding the amount that the Bank expects to collect of total loans to customers that: (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; (ii) have been in arrears for 12 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.

Loan Classifications	Corporate[1]	Consumer
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.

Loan Charge-Offs

Basic Principles

The Bank attempts to minimize loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if charge-offs are necessary, the Bank charges off loans subject to its charge-off policy at an early stage in order to maximize accounting transparency, to minimize any waste of resources in managing loans which have a low probability of being collected and to reduce the Bank's non-performing loan ratio.

Loans to Be Charged Off

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means; and
- the portion of loans classified as "estimated loss," net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

In order to charge off corporate loans, an application for a charge-off must be submitted to the Credit Management Department promptly after the corporate loan is classified as estimated loss or deemed uncollectible. The Credit Management Department refers the charge-off application to the Bank's Branch Audit Department for their review to ensure compliance with the Bank's internal procedures for charge-offs. Then, the Credit Management Department, after reviewing the application to confirm that it meets relevant requirements, seeks an approval from the FSS for the Bank's charge-offs, which is typically granted. Once the Bank receives approval from the FSS, the Bank must also obtain approval from its senior management to charge off those loans. For accounting purposes, the Bank recognizes charge-offs of corporate loans under Korean IFRS prior to approval from the FSS.

With respect to unsecured retail loans, the Bank follows a different process to determine which unsecured retail loans should be charged off, based on the length of time those loans are past due. The Bank charges off unsecured retail loans deemed to be uncollectible under Korean IFRS.

Treatment of Loans Charged Off

Once loans are charged off, the Bank classifies them as charged-off loans and removes them from its balance sheet. These loans are managed based on a different set of procedures. The Bank continues its collection efforts in respect of these loans although loans may be charged off before the Bank begins collection efforts in some circumstances.

If a collateralized loan is overdue, the Bank will, typically within one year from the time that such loan became overdue (or after a longer period in certain circumstances), petition a court to foreclose and sell the collateral through a court-supervised auction. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, the Bank will sell the collateral, net of expenses incurred from the auction.

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, credit evaluation and maturity 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 per cent. 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 per cent. 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 "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Financial Exposure to Any Individual Customer or Major Shareholder*") of that bank in excess of an amount equal to 1 per cent. 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 "*Regulation and Supervision of the Bank — Legal and Regulatory Framework in Korea — Liquidity*" and "*Regulation and Supervision of the Bank — 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 the carrying amount and fair value of securities in the Bank's securities portfolio as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in billions of Won)					
Available-for-sale financial assets:						
Equity securities	₩ 2,869	₩ 2,869	₩ 5,497	₩ 5,497	₩ 4,472	₩ 4,472
Debt securities						
Korean treasury securities and government agency securities	3,202	3,202	6,591	6,591	2,820	2,820
Debt securities issued by financial institutions	6,377	6,377	8,370	8,370	15,839	15,839
Corporate debt securities	3,534	3,534	4,117	4,117	6,741	6,741
Asset-backed securities	5,181	5,181	2,730	2,730	2,205	2,205
Total available-for-sale financial assets	21,163	21,163	27,305	27,305	32,078	32,078
Held-to-maturity financial assets:						
Debt securities						
Korean treasury securities and government agency securities	1,871	2,020	1,534	1,634	1,303	1,353
Debt securities issued by financial institutions	2,024	2,039	1,528	1,480	1,878	1,846
Corporate debt securities	3,710	3,828	1,782	1,842	1,361	1,385
Asset-backed securities	4,144	4,186	3,583	3,622	4,195	4,191
Total held-to-maturity financial assets	11,749	12,073	8,427	8,578	8,737	8,775
Financial assets at fair value through profit or loss:						
Financial assets held for trading:						
Equity securities	61	61	61	61	339	339
Debt securities						
Korean treasury securities and government agency securities	1,301	1,301	2,150	2,150	1,639	1,639
Debt securities issued by financial institutions	3,134	3,134	3,658	3,658	3,727	3,727
Corporate debt securities	1,438	1,438	1,446	1,446	2,025	2,025
Asset-backed securities	218	218	222	222	149	149
Others	196	196	217	217	360	360
Others	69	69	72	72	74	74
Total financial assets held for trading	6,417	6,417	7,827	7,827	8,313	8,313

	As of December 31,					
	2015		2016		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in billions of Won)					
Financial assets designated at fair value through profit or loss:						
Derivative linked securities	70	70	130	130	95	95
Total financial assets designated at fair value through profit or loss	70	70	130	130	95	95
Total financial assets at fair value through profit or loss	6,487	6,487	7,956	7,956	8,409	8,409
Total securities	₩ 39,399	₩ 39,723	₩ 43,689	₩ 43,838	₩ 49,224	₩ 49,262

Maturity Analysis

For information regarding the scheduled maturities of the Bank's securities portfolio and other financial assets as of December 31, 2017, see Note 4.3.3 of the notes to the Bank's annual consolidated financial statements included elsewhere in this Offering Circular.

Concentrations of Risk

As of December 31, 2017, the Bank held the following securities of individual issuers where the aggregate carrying amount of those securities exceeded 10 per cent. of the Bank's total equity at such date. As of December 31, 2017, the Bank's total equity was ₩25,323 billion.

	Carrying Amount	Fair Value
	(in billions of Won)	
Name of issuer:		
Government	₩ 4,813	₩ 4,863
BOK	7,148	7,148
Korea Housing Finance Corporation	6,480	6,476
Korea Development Bank	5,264	5,262
Total	₩ 23,705	₩ 23,749

The Korea Housing Finance Corporation is owned by the Government and the BOK, and the Korea Development Bank is owned by the Government. The BOK is controlled 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 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,					
	2015		2016		2017	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	₩ 3,836	—	₩ 4,073	—	₩ 4,117	—
Interest bearing	82,693	0.35%	97,489	0.30%	108,834	0.25%
Time deposits	123,845	2.16%	124,741	1.69%	126,364	1.57%
Certificates of deposit	3,671	1.91%	3,387	1.65%	2,908	1.55%
Average total deposits	₩ 214,044	1.42%	₩ 229,690	1.07%	₩ 242,223	0.95%

Note:

(1) Average balances are based on daily balances.

For a description of the Bank's retail deposit products, see *"The Bank — Retail Banking — Deposit-Taking Activities."*

Time Deposits and Certificates of Deposit

The following table presents 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, 2017:

	Time Deposits	Certificates of Deposit	Total
		(in billions of Won)	
Maturing within three months	₩ 19,558	₩ 921	₩ 20,479
After three but within six months	16,825	757	17,583
After six but within 12 months	28,132	1,447	29,579
After 12 months	2,959	55	3,014
Total	₩ 67,474	₩ 3,180	₩ 70,655

Long-Term Borrowings

The aggregate amount of contractual maturities of all long-term borrowings (comprising debentures and debt) of the Bank as of December 31, 2017 was as follows:

	As of December 31, 2017
	(in billions of Won)
Due in the year ended December 31, 2018	₩ 7,045
Due in the year ended December 31, 2019	6,462
Due in the year ended December 31, 2020	5,147
Due in the year ended December 31, 2021	1,109
Due in the year ended December 31, 2022	2,492
Thereafter	2,082
Gross long-term borrowings	24,338
Fair value adjustments	(26)
Deferred financing costs	(2)
Discount	(17)
Total long-term borrowings, net	₩ 24,293

Short-Term Borrowings

The following table presents 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,		
	2015	2016	2017
	(in billions of Won, except percentages)		
Call money:			
Year-end balance	₩ 2,011	₩ 2,710	₩ 986
Average balance[(1)]	2,975	2,505	3,050
Maximum balance[(2)]	3,984	3,127	3,447
Average interest rate[(3)]	1.18%	1.03%	1.30%
Year-end interest rate	0.24-5.00%	0.08-3.30%	1.20-2.20%
Borrowings from the BOK:[(4)]			
Year-end balance	1,421	1,644	1,889
Average balance[(1)]	1,323	1,571	1,805
Maximum balance[(2)]	1,610	1,714	1,935
Average interest rate[(3)]	0.72%	0.68%	0.69%
Year-end interest rate	0.50-0.75%	0.50-0.75%	0.50-0.75%
Other short-term borrowings:[(5)]			
Year-end balance	₩ 3,974	₩ 5,180	₩ 6,791
Average balance[(1)]	5,816	4,248	7,036
Maximum balance[(2)]	7,085	5,938	8,840
Average interest rate[(3)]	0.94%	0.70%	0.89%
Year-end interest rate	0.00-8.62%	0.00-7.50%	0.00-5.12%

Note:

(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. These short-term borrowings were secured by securities totaling ₩1,978 billion as of December 31, 2017.

(5) Other short-term borrowings include securities sold under repurchase agreements, bills sold, borrowings and debentures. Other short-term borrowings have maturities of one year or less. Securities sold under repurchase agreements were secured by securities totaling ₩775 billion as of December 31, 2017.

RISK MANAGEMENT OF THE BANK

Overview

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 internal 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.

Organization

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.

Credit Evaluation

The Bank evaluates the ability of all loan applicants to repay their debts before it approves any loans, except for loans fully guaranteed by letters of guarantee issued by the Credit Guarantee Fund and the Korea Technology Credit Guarantee Fund, for loans fully secured by deposits and for other loans similarly guaranteed or secured. The Bank assigns each borrower or guarantor a credit rating based on the judgment of its experts or scores calculated using the appropriate credit rating system. Factors that the Bank considers in assigning credit ratings include 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 rating process differs according to the type, size and characteristics of a borrower.

The Bank uses its internally developed credit rating systems to rate potential borrowers. As the characteristics of each customer segment differ, the Bank uses several credit rating systems for its customers. The nature of the credit rating system used for a particular borrower depends on whether the borrower is an individual, SOHO, SME or large company. For large companies, the Bank has 17 credit ratings ranging from AAA to D. For SMEs, the Bank has 15 credit ratings ranging from AA to D. For retail customers, the Bank has 13 credit ratings ranging from grade 1 to grade 13.

Based on the credit rating of a borrower, the Bank applies different credit policies, which affect factors such as credit limit, loan period, loan pricing, loan classification and provisioning. The Bank also uses these credit ratings in evaluating its bank-wide risk management strategy. Factors the Bank considers in making this evaluation include the profitability of each company or transaction, performance of each business unit and portfolio management. The Bank monitors the credit status of borrowers and collects information to adjust its ratings appropriately. If the Bank changes a borrower's credit rating, the Bank will also change the credit policies relating to that borrower and it may also change the policies underlying its loan portfolio.

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans

The Bank's processing center staff reviews mortgage loans and retail loans secured by real estate or guarantees. Branch staff employees forward loan applications to processing centers. However, in the case of loans secured by deposits with the Bank, its branch staff approves such loans. The Bank makes lending decisions based on its assessment of the value of the collateral, debt service capability and the borrower's score generated from its credit scoring systems.

For mortgage loans and loans secured by real estate, the Bank evaluates the value of the real estate offered as collateral using a database the Bank has developed that contains information about real estate values throughout Korea. The Bank also uses information from a third party provider about the real estate market in Korea, which gives the Bank up-to-date market value information for Korean real estate. In addition, the Bank's processing center staff employees review the value of real estate provided by the evaluation system to ensure there are no significant discrepancies. The Bank bases decisions regarding the approval of such loans primarily on the results of its credit scoring systems.

For loans secured by deposits, the Bank will generally grant loans up to 95 per cent. of the deposit amount if the Bank holds the deposit.

With respect to mortgage loans and secured retail loans, the Bank screens customers based on various items on its checklist that indicate whether the customer may have deteriorating credit using internal information and rating information from credit bureaus. The Bank also evaluates debt service capability for eligible customers pursuant to certain checklist items, such as profession, annual income, credit card overdue information, transaction history (with both the Bank and other financial institutions) and other relevant credit information.

The Bank generally decides whether to evaluate a loan application within three to five days after recording the relevant information in its credit scoring systems.

Unsecured Retail Loans

The Bank reviews applications for unsecured retail loans in accordance with its credit scoring systems. These automated systems evaluate loan applications and determine an appropriate pricing for the loan. The major benefits of using a credit scoring system are that it yields uniform results regardless of the user, that it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation and that it can be updated easily to reflect changing market conditions by adjusting how each factor is weighted. The staff at the Bank's processing centers reviews the results of the credit scoring system based on information input by its branch staff and, if approved, issues the loan.

The Bank's credit scoring systems take into account factors including borrower's income, assets, profession, age, transaction history (with both the Bank and other financial institutions) and other relevant credit information. The systems rank each borrower in an appropriate grade and that grade is used as a factor in deciding whether to approve loans as well as to determine loan amounts.

The Bank generally bases its decisions on the results of its credit scoring systems to evaluate applications. However, a credit officer may overturn the results of the Bank's credit scoring systems in certain circumstances.

Corporate Loan Approval Process

The Bank approves corporate loans at different levels of its organization depending on the size and type of the loan, the credit risk level assessed by the credit rating system, whether the loan is secured by collateral and, if secured, the value of the collateral. The lowest level of authority is the branch staff employee, who can approve small loans and loans that have the lowest range of credit risk. Larger loans and loans with higher credit risk are approved by higher levels of authority depending on where they fall in a matrix of loan size and credit risk. Depending on the size and terms of any particular loan or the credit risk relating to a particular borrower, more than one entity may review the application, although generally loan applications are reviewed only by the entity having corresponding authority to approve the loan.

The Bank evaluates all of its corporate borrowers by using credit rating systems, except for applicants whose borrowings are fully secured by deposits or applicants who have obtained third-party guarantees from the Government or certain other very highly rated guarantors. See "— *Credit Evaluation*" above.

For SOHOs with total outstanding loans of ₩1 billion or less, the Bank has put in place a retail SOHO credit rating system, which adopts simplified credit evaluation modelling procedures and has the same structure and process as the credit rating system for individual retail borrowers. This system consists of a scoring model and a preliminary examination checklist. The scoring model analyzes information with respect to the customer's personal information and bank transaction history, as well as information from credit bureaus. The preliminary examination checklist is based on information regarding the customer's credit delinquencies and history of write-offs. This system classifies customers into 13 possible credit ratings.

For SOHOs with total outstanding loans of more than ₩1 billion, the Bank has put in place a separate credit rating system known as **SOHO CRS**. For other SMEs, the Bank has put in place a similar credit rating system known as **CRS**. For large corporations, the Bank has put in place a similar credit rating system known as LCRS. For financial institutions, certain non-profit organizations and public institutions, the Bank has put in place a similar credit rating system known as **FNP CRS**. The SOHO CRS, the CRS, the LCRS and the FNP CRS models consist of the following three parts:

- *Financial Model*. The financial model uses the borrower's current status and trend of financial ratios calculated using its financial statements. The financial model classifies potential borrowers into one of three size categories and one of five types of industry. This model incorporates logistic regression and statistical methods, which use financial ratios such as stability ratio, cash flow ratio, profitability ratio and turnover ratio, to make credit determinations.

- *Non-financial Model*. The non-financial model uses various qualitative and quantitative factors, such as future repayment capability, market prospects, management capability and business capability, to evaluate borrowers. The factors that are evaluated and the weighting given to each factor vary by type of industry and size of company.

- *Default Signal Check Model*. The default signal check model checks factors that have low frequency of occurrence but are highly likely to lead to a default in the event of an occurrence. The results of the default signal check model may be used to cap a borrower's credit grade.

In addition to the three parts outlined above, the SOHO CRS also includes a CEO Evaluation Model, which analyzes information with respect to personal information and bank transaction history of the individual owner of such SOHO.

The Bank often refers to corporate information gathered or ratings assigned by external credit rating agencies, such as Korea Information Service, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation, in order to improve the accuracy of the Bank's credit ratings.

Total Exposure Management

The Bank establishes and manages total exposure limits for corporations, *chaebols* and industries, as well as certain SMEs, in order to optimize the use of credit availability and avoid excessive risk concentration. The Bank establishes total exposure limits for (i) main debtor groups designated by the FSS (ii) groups to which the Bank has total exposure of ₩50 billion or more, (iii) enterprises that belong to a main debtor group or large enterprises, in both cases to which the Bank has total exposure of ₩30 billion or more, (iv) SMEs to which the Bank has total exposure of ₩20 billion or more and (v) other groups or individual enterprises designated by the head of the Bank's Risk Management Council as necessary. The Bank establishes total exposure limits by reviewing factors such as industry, size, cash flows, financial ratios and credit ratings, while establishing exposure limits for industries by reviewing the sales growth rate and risk concentration for each industry. These total exposure limits are set following approval by the Bank's Risk Management Council after review by the Credit Risk Management Subcommittee.

The Bank's maximum exposure limit is within 25 per cent. of its Tier I and Tier II capital for a single *chaebol*, and within 10 per cent. of its Tier I and Tier II capital for an individual large corporation.

The Bank manages and controls exposure limits on a daily basis. The principal system that the Bank uses for this purpose is the Total Exposure Management System. This system allows the Bank to monitor and control its total exposure to large corporations, *chaebols* and industries. The Bank monitors its exposure to large corporations to which the Bank has an exposure of ₩30 billion or more, individual corporations to which the Bank has an exposure of ₩20 billion or more, and also its exposure to the 142 business groups, which comprise the 36 largest highly-indebted business groups among *chaebols* in Korea designated as such by the FSS based on their outstanding exposures, 18 business groups and individual corporations selected for monitoring by the Head of the Risk Management Group, as well as 88 business groups to which it has exposures (in the form of securities or loans) of ₩50 billion or more. The Bank also monitors its exposure to industries by peer groups. The Bank's Total Exposure Management System integrates all of its credit-related risk including credit extended by its overseas branches and affiliates. The assets subject to the system include all Won-denominated and foreign currency-denominated loans, all assets in trust accounts except specified money trusts, guarantees, trade-related credits, commercial paper, corporate bonds and other securities and derivatives.

Collateral Evaluation and Monitoring System

The Bank uses the Collateral Evaluation and Monitoring System to manage the liquidation value of collateral it holds. The Collateral Evaluation and Monitoring System is a computerized collateral management system that can be accessed from its headquarters and its branches. Using this system, the Bank can more accurately assess the actual liquidation value of collateral, determine the recovery rate on its loans and use this information in setting the Bank's credit risk management and loan policies. The Bank can monitor the value of all the collateral a borrower provides and the value of that collateral based on its liquidation value. When appraising the value of real estate collateral, which makes up the largest part of the Bank's collateral, the Bank consults a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of Korea are sold. The Bank appraises the value of collateral when it makes a loan, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Risk Management and Monitoring

The Bank's Credit Risk Department manages and regulates the Bank's loan portfolio policies. The Credit Risk Department also analyzes and monitors the Bank's loan portfolios and monitors the Bank's compliance with the applicable limits for credit risk. Moreover, the Credit Risk Department separately manages high-risk products, such as real estate project financing loans and over-the-counter derivative products, by setting appropriate limits.

Credit Review

The Bank's credit review function is independent of the business groups which manage its assets. The Bank's Credit Review Department:

- reviews the Bank's internal credit regulations, policies and systems;
- analyzes the credit status of selected loan assets and verifies the appropriateness of the credit evaluations/approvals made by branches and headquarters; and
- evaluates the corporate credit risk of potentially insolvent companies.

More specifically, the Credit Review Department continuously reviews the financial condition of selected borrowers with respect to their current debt, collateral, business, transactions with related parties and debt service capability. Based on its review, the Bank may adjust the borrower's credit rating, its lending policy or asset quality classification of the loan provided to the borrower, depending on the applicable circumstances. The Bank also regularly reviews other aspects of the lending process, including industries and regions in which its borrowers operate and the quality of its domestic and overseas assets. The Bank's industry reviews focus on growth, stability, competition and ability to adapt to a changing environment. Based on the results of a particular industry review, the Bank may revise the total exposure limit assigned to that industry and the lending policy for each company within that industry. When a review takes place, the Bank may adjust not only credit ratings of its borrowers based on a variety of factors, but also asset quality classification, credit limits and applied interest rates or its credit policies. Credit review results are reported to the Bank's chief risk officer and the Risk Management Committee on a quarterly basis.

The Credit Review Department also conducts on-site reviews of selected branches and related credit analysis centers which are experiencing increasing delinquency ratios and bad debts. During these visits, the loan processes are examined and improvement plans and appropriate follow-up measures are recommended.

Also, based on guidelines provided by the FSS to all Korean banks, the Bank operates a corporate credit risk assessment program to facilitate the identification of weak companies and possible commencement of corporate restructuring. Through this program, the Bank, together with other banks, is able to detect symptoms of financially troubled companies at an early stage, assess related credit risk and support the normalization of companies that are likely to turnaround through a workout process, or seek to liquidate those companies that are not likely to recover.

The Credit Review Department also analyzes issues related to credit risk and provides information necessary for the formulation of effective credit policies and strategies and for effective credit risk management.

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 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 Asset and Liability Risk Management Department, and independently reports to the management on the related issues.

Market Risk Management for Trading Activities

The Bank's trading activities consist of:

- trading activities for its own account to realize short-term trading profits in Won-denominated debt and equities markets and foreign exchange markets based on the Bank's short-term forecast of changes in the market situation; and
- trading activities involving derivatives, such as swaps, forwards, futures and option transactions, to realize profits primarily from selling derivative products to the Bank's customers and to hedge market risk incurred from those activities.

The Bank uses derivative instruments to hedge its market risk and, to a limited extent, to make profits by trading derivative products within acceptable risk limits. The principal objective of its hedging strategy is to manage the Bank's market risk within established limits. The Bank uses the following hedging instruments to manage relevant risks:

- to hedge interest rate risk arising from its trading activities, the Trading/Capital Markets Department occasionally uses interest rate futures (Korea Treasury Bond Futures) and interest rate swaps;

- to hedge stock price risk arising from its trading activities, the Trading/Capital Markets Department selectively uses stock index futures;

- to hedge interest rate risk and foreign exchange risk arising from its foreign currency-denominated asset and liability positions as well as its trading activities, the Treasury Unit within the Capital Markets Department use interest rate swaps, cross-currency interest rate swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options; and

- to change the interest rate characteristics of certain assets and liabilities after the original investment or funding, the Bank uses swaps. For example, depending on the market situation, the Bank may choose to obtain fixed rate funding instead of floating rate funding if it believes that the terms are more favorable, which the Bank can achieve by entering into interest rate swaps.

The Bank generally manages its market risk at the portfolio level. To control its exposure to market risk, the Bank uses internal capital limits set by its Risk Management Council for itself and its groups and departments, VaR, position and stop loss limits set by the Risk Management Council for itself and its groups, and VaR, position, stop loss and sensitivity limits (PVBP, Delta, Gamma, Vega) set by the Bank's Market Risk Management Subcommittee for its departments. The Bank prepared its risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the FSS.

In addition, the Bank has implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product. See Notes 3.3 and 6 of the notes to the Bank's annual consolidated financial statements included elsewhere in this Offering Circular. For example, each year the Risk Management Department reviews the existing pricing and valuation models, with a focus on their underlying modelling assumptions and restrictions, to assess the appropriateness of their continued use. In consultation with the Trading Department, the Risk Management Department recommends potential valuation models to the Fair Value Evaluation Committee. Upon approval by the Fair Value Evaluation Committee, the selected valuation models are reported to the Market Risk Management Subcommittee.

The Bank monitors market risk arising from trading activities of its business groups and departments. The market risk measurement model the Bank uses for both its Won-denominated trading operations and foreign currency-denominated trading operations is implemented through its integrated market risk management system, called Adaptiv, which enables the Bank to generate consistent VaR numbers for all trading activities.

VaR analysis. The Bank uses VaR to measure market risk. VaR is a statistically estimated maximum amount of loss that could occur over a given period of time at a given level of confidence. VaR is a commonly used market risk management technique. However, this approach does have some shortcomings. VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is 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 can be different depending on the assumptions made at the time of 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 are too long, the VaR results may understate or overstate the potential loss. Different VaR methodologies and distributional assumptions could produce a materially different VaR. VaR is most appropriate as a risk measure for trading positions in liquid capital markets and will understate the risk associated with severe events, such as a period of extreme illiquidity.

The Bank uses a 99 per cent. single tail confidence level to measure VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. Until 2011, the Bank used the "variance-covariance method" or parametric VaR ("**PVaR**") methodology to measure its daily VaR, which took into account the diversification effects among different risk categories as well as within the same risk category. In 2012, the Bank received authorization from the FSC to use a historical simulation VaR ("**HSVaR**") methodology, which the Bank believes to be more accurate and responsive in reflecting market volatilities, to measure market risk. The Bank's ten-day HSVaR method, which is computed using a full valuation and is computationally intensive, uses an archive of historical price data and the VaR for a portfolio is estimated by creating a hypothetical time series of returns on that portfolio, obtained by running the portfolio through actual ten-day historical data and computing the changes that would have occurred in each ten-day period.

The following table shows the volume and types of positions held by the Bank for which the VaR method is used to measure market risk as of the dates indicated.

	As of December 31,		
	2015	**2016**	**2017**
	(in millions of Won)		
Securities — Bond[(1)]	₩ 6,368,805	₩ 7,700,731	₩ 8,179,481
Securities — Equity[(1)]	31,397	34,131	43,214
Spot exchanges[(2)]	1,276,665	2,316,311	4,029,675
Derivatives[(3)]	4,416,844	5,778,082	5,438,917
Total	₩ 12,093,711	₩ 15,829,255	₩ 17,691,288

Note:

(1) Represents amounts marked to market and as shown on the balance sheet information that is prepared and submitted to the FSS for risk management purposes.

(2) Represents the overall net open currency position in each currency, which is the greater of (i) the sum of the absolute value of all short positions and (ii) the sum of the absolute value of all long positions.

(3) For over the counter derivatives, represents the absolute value of over the counter derivatives measured at fair value at year end. For exchange traded derivatives, includes the amount of deposits and the collateral posted for such derivatives.

The following table shows the Bank's ten-day HSVaRs (at a 99 per cent. confidence level for a ten-day holding period) as of the dates indicated for interest risk, stock price risk and foreign exchange risk relating to the Bank's trading activities.

	As of December 31,		
	2015	2016	2017
	(in billions of Won)		
Risk Categories:			
Interest risk	₩ 15.8	₩ 14.9	₩ 23.8
Stock price risk	2.1	1.3	1.2
Foreign exchange risk	21.9	10.1	24.3
Less: diversification	(16.6)	(6.5)	(29.7)
Diversified VaR for overall trading activities	₩ 23.2	₩ 19.8	₩ 19.6

In 2017, the average, high, low and ending amounts of ten-day HSVaR (at a 99 per cent. confidence level for a ten-day holding period) for the Bank relating to its trading activities were as follows:

	Trading activities VaR for 2017			
	Average	Minimum	Maximum	As of December 31, 2017
	(in billions of Won)			
Interest risk	₩ 22.7	₩ 14.3	₩ 42.2	₩ 23.8
Stock price risk	1.0	0.8	1.3	1.3
Foreign exchange risk	32.7	12.4	44.3	24.3
Less: diversification	—	—	—	(29.7)
Diversified VaR for overall trading activities	₩ 23.3	₩ 16.5	₩ 30.2	₩ 19.6

In 2016, the average, high, low and ending amounts of ten-day HSVaR (at a 99 per cent. confidence level for a ten-day holding period) for the Bank relating to its trading activities were as follows:

	Trading activities VaR for 2016			
	Average	Minimum	Maximum	As of December 31, 2016
	(in billions of Won)			
Interest risk	₩ 15.7	₩ 10.8	₩ 19.5	₩ 14.9
Stock price risk	1.8	0.7	2.3	1.3
Foreign exchange risk	16.5	10.1	22.2	10.1
Less: diversification	—	—	—	(6.5)
Diversified VaR for overall trading activities	₩ 19.0	₩ 11.6	₩ 28.5	₩ 19.8

In 2015, the average, high, low and ending amounts of ten-day HSVaR (at a 99 per cent. confidence level for a ten-day holding period) for the Bank relating to its trading activities were as follows.

	Trading activities VaR for 2015			
	Average	**Minimum**	**Maximum**	**As of December 31, 2015**
	(in billions of Won)			
Interest risk	₩ 18.4	₩ 10.0	₩ 27.1	₩ 15.8
Stock price risk	1.7	0.9	3.9	2.0
Foreign exchange risk	12.4	8.3	21.9	21.9
Less: diversification	—	—	—	(16.6)
Diversified VaR for overall trading activities	₩ 23.9	₩ 11.7	₩ 33.9	₩ 23.2

Standardized Method. Market risk for positions not measured by VaR are measured using the standardized method for measuring market risk-based required equity capital specified by the FSS, which takes into account certain risk factors. Under the standardized method, the required equity capital is measured using the risk-weighted values for each risk factor. The method used to measure the market risk-based required equity capital for each risk factor is as follows:

- Interest rate risk:
  - General market risk: General market risk relates to the risk of losses from macroscopic events which could have an impact on interest rates, stock prices, exchange rates, and market prices of general commodities. General market interest rate risk of a debt security is calculated on its net position, taking into consideration the remaining maturity and coupon rate.
  - Specific risk: Specific risk relates to the risk of loss from changes in credit risk of issuers of debt securities or equities, excluding changes in general market prices. Specific interest rate risk of a debt security is measured by multiplying the interest rate position appraised, based on the market price of such security, by the risk-weighted value applicable to the type of debt security, credit rating and the remaining maturity.
- Equity risk: General and specific equity risks are calculated by multiplying the bought or sold position by the relevant risk-weighted values.
- Foreign exchange risk: Foreign exchange risk is measured by multiplying the larger of the absolute values among the net bought or sold positions of each currency by the relevant risk-weighted values.
- Option risk: Option risk is measured using the delta, gamma and vega of the option.

The standardized method is used to measure the market risk of the positions for which the FSS has not approved the use of the VaR method. In addition, the Bank uses the standardized method for positions which are held by certain subsidiaries or for which measuring VaR is difficult due to the lack of daily position data.

The following table shows the volume and types of instruments held by the Bank for which the standardized method is used to measure its required equity capital as of the dates indicated.

	As of December 31,		
	2015	2016	2017
	(in millions of Won)		
Currency rate swaps and foreign exchange positions[1]	₩ —	₩ 1,706	₩ 14,742
Derivative-linked securities[2]	—	129,535	95,357
Options embedded in convertible bonds[3]	346	9,183	17,303
Total	₩ 346	₩ 140,424	₩ 127,402

Notes:

(1) The overall net open currency position is the greater of (i) the sum of the absolute value of all short positions and (ii) the sum of the absolute value of all long positions. In the first half of 2015, the Bank received approval from the FSS to use its internal VaR model, in lieu of the standardized method, to measure the market risk of positions held by Kookmin Bank (China) Ltd. As of December 31, 2015, the Bank held no currency rate swaps and foreign exchange positions that required the use of the standardized method to measure the Bank's required equity capital. Amounts as of December 31, 2016 represent only the value of interest rate swaps held by a special purpose vehicle of the Bank, for which the standardized method is used to measure the Bank's required equity capital. Amounts as of December 31, 2017 represent the value of interest rate swaps held by a special purpose vehicle of the Bank and the foreign exchange positions held by KB Microfinance Myanmar Co., Ltd., for which the standardized method is used to measure the Bank's required equity capital.

(2) Amounts as of December 31, 2016 and 2017 represent the value of derivative-linked securities held by the trust accounts of the Bank subject to consolidation, for which the standardized method is used to measure the Bank's required equity capital.

(3) Represents the absolute value of over the counter derivatives measured at fair value at year end for monitoring purposes.

The following table shows the Bank's required equity capital measured using the standardized method as of the dates indicated.

	As of December 31,		
	2015[1]	2016[1]	2017[1]
	(in millions of Won)		
Risk categories:			
Interest risk	₩ 34	₩ 15,162	₩ 98,235
Stock price risk	118	4,817	1,646
Foreign exchange risk	—	—	810
Total	₩ 152	₩ 19,979	₩ 100,691

Note:

(1) In the first half of 2015, the Bank received approval from the FSS to use its internal VaR model, in lieu of the standardized method, to measure the market risk of certain instruments held by the Bank, including 30-year government bonds held by the Bank, as well as positions held by certain subsidiaries of the Bank, including Kookmin Bank (China) Ltd.

Back Testing. The Bank conducts back testing on a daily basis to validate the adequacy of its market risk model. In back testing, the Bank compares both the actual and hypothetical profit and loss with the VaR calculations and analyzes any results that fall outside its predetermined confidence interval of 99 per cent.

Stress testing. In addition to VaR, which assumes normal market situations, the Bank uses stress testing to assess its market risk exposure to abnormal market fluctuations. Abnormal market fluctuations include significant declines in the stock market and significant increases in the general level of interest rates. This is an important way to supplement VaR, as VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside the Bank's normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. According to its stress testing, the Bank estimates that as of December 31, 2017, its trading portfolio could have lost ₩457 billion for an assumed short-term extreme decline of approximately 25 per cent. in the equity market and an approximate 50 basis point increase in the Korean treasury bond rates under an abnormal stress environment.

The Bank monitors the impact of market turmoil or any abnormality by conducting stress tests and confirming that the results are within the Bank's market risk limits. If the impact is large, the Bank's chief risk officer may request that the Bank's portfolio be restructured or other appropriate action be taken.

Interest Risk

Interest risk from trading activities arises mainly from the Bank's trading of Won-denominated debt securities. Its trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As its trading accounts are marked-to-market daily, the Bank manages the interest risk related to its trading accounts using market value-based tools such as VaR and sensitivity analysis. As of December 31, 2017, the VaR of the Bank's interest risk from trading was ₩23.8 billion and the weighted average duration, or weighted average maturity, of its Won-denominated debt securities at fair value through profit or loss was approximately 2.3 years.

Foreign Exchange Risk

Foreign exchange risk arises because the Bank has assets and liabilities that are denominated in currencies other than Won, as well as off-balance sheet items such as foreign exchange forwards and currency swaps. Assets and liabilities denominated in U.S. dollars, Japanese Yen, Euro, Kazakhstan Tenge and Chinese Renminbi typically account for the majority of the Bank's foreign currency assets and liabilities.

The difference between the Bank's foreign currency assets and liabilities is offset against forward foreign exchange positions, currency options and currency swaps to obtain its net foreign currency open position. The Risk Management Council and Market Risk Management Subcommittee oversee the Bank's foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits. VaR limits are established on a combined basis for its domestic operations and foreign branches.

The following table shows the Bank's separate net open positions as of the dates indicated. Positive amounts represent long positions and negative amounts represent short positions.

	As of December 31,		
	2015	**2016**	**2017**
	(in millions of US$)		
Currency:			
US$	US$(317.6)	US$(530.5)	US$(714.4)
Japanese Yen	(0.2)	1.3	(0.7)
Euro	(3.3)	(5.6)	(1.3)
Kazakhstan Tenge	29.7	27.0	—
Chinese Renminbi	11.3	70.8	47.21
Others	7.8	5.7	7.4
Total	US$(272.3)	US$(431.3)	US$(661.8)

Equity Price Risk

Equity price risk results from the Bank's equity derivatives trading portfolio in Won since the Bank does not have any trading exposure to shares denominated in foreign currencies other than foreign equity index futures.

The equity derivatives trading portfolio in Won consists of exchange-traded stocks and equity derivatives under strict limits on diversification as well as position limits and stop loss limits.

The Risk Management Council and Market Risk Management Subcommittee sets annual and monthly stop loss limits that are monitored by the Risk Management Department. In order to ensure timely action, the stop loss limit of individual securities is monitored by the Bank's middle office.

As of December 31, 2017, the Bank's equity trading position was ₩339 billion.

Derivative Market Risk

The Bank's derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures and currency options. These activities consist primarily of the following:

- sales of tailor-made derivative products that meet various needs of the Bank's corporate customers and related transactions to reduce the Bank's exposure resulting from those sales;
- taking positions in limited cases when the Bank expects short-swing profits based on its market forecasts; and
- trading to hedge the Bank's interest rate and foreign currency risk exposure as described above.

Market risk from trading derivatives is not significant since the Bank's derivative trading activities are primarily driven by customer deals with very limited open trading positions.

Market Risk Management for Non-Trading Activities

Interest Rate Risk

The Bank's principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of these rate-sensitive assets and liabilities. The Bank measures interest rate risk for Won and foreign currency assets and liabilities in its bank accounts (including derivatives) and its principal guaranteed trust accounts. Most of the Bank's interest earning assets and interest bearing liabilities are denominated in Won and its foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars.

The Bank's principal interest rate risk management objectives are to generate stable net interest revenues and to protect its asset value against interest rate fluctuations. The Bank principally manages this risk for its non-trading activities by analyzing and managing maturity and duration gaps between its interest earning assets and interest bearing liabilities. In addition, the Bank uses hedging instruments for interest rate risk management for its non-trading assets and liabilities.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest earning assets and interest bearing liabilities at each maturity and interest resetting date. The Bank performs interest rate gap analysis for Won-denominated and foreign currency-denominated assets and trust assets on a monthly basis or more frequently when deemed necessary.

Interest Rate Gap Analysis. The Bank performs interest rate gap analysis based on interest rate re-pricing maturities of assets and liabilities. However, for some of the Bank's assets and liabilities with either no maturities or unique characteristics, the Bank uses or assumes certain maturities, including the following examples:

With respect to asset maturities, the Bank assumes remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and uses the actual maturities for prime rate-linked loans with remaining maturities of less than one year.

With respect to liability maturities, the Bank differentiates "noncore" and "core" demand deposits using the last 36 months' average balance of demand deposits. The Bank assumes "non-core" demand deposits to have remaining maturities of one month or less and "core" demand deposits to have remaining maturities between one month and five years.

The following table shows the Bank's consolidated interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2017:

	As of December 31, 2017					
	0-3 Months	**3-6 Months**	**6-12 Months**	**1-3 Years**	**Over 3 Years**	**Total**
	(in billions of Won, except percentage)					
Won-denominated						
Interest earning assets:						
Loans	₩ 95,978	₩ 68,665	₩ 35,921	₩ 15,003	₩ 18,480	₩ 234,047
Securities	4,882	4,731	6,429	13,751	5,391	35,184
Others	7,268	129	161	36	0	7,594
Total	₩ 108,128	₩ 73,525	₩ 42,511	₩ 28,790	₩ 23,871	₩ 276,825
Interest bearing liabilities:						
Deposits	₩ 90,176	₩ 39,084	₩ 55,321	₩ 29,798	₩ 23,852	₩ 238,231
Borrowings	7,076	62	0	0	120	7,258
Others	6,728	1,950	3,068	7,170	2,960	21,876
Total	₩ 103,980	₩ 41,096	₩ 58,389	₩ 36,968	₩ 26,932	₩ 267,365
Sensitivity gap	4,148	32,429	(15,878)	(8,178)	(3,061)	9,460
Cumulative gap	4,148	36,577	20,699	12,521	9,460	
% of total assets	1.5%	13.2%	7.5%	4.5%	3.4%	
Foreign currency-denominated						
Interest earning assets:						
Due from banks	₩ 1,635	₩ 53	₩ 101	₩ 0	₩ 0	₩ 1,789
Loans	11,425	1,321	595	24	83	13,448
Securities	522	112	251	1,082	1,390	3,357
Total	₩ 13,582	₩ 1,486	₩ 947	₩ 1,106	₩ 1,473	₩ 18,594
Interest bearing liabilities:						
Deposits	₩ 5,386	₩ 4,554	₩ 1,088	₩ 235	₩ 37	₩ 11,300
Borrowings	4,450	1,818	646	13	5	6,932
Others	786	177	177	867	1,280	3,287
Total	₩ 10,622	₩ 6,549	₩ 1,911	₩ 1,115	₩ 1,322	₩ 21,519
Sensitivity gap	2,960	(5,063)	(964)	(9)	151	(2,925)
Cumulative gap	2,960	(2,103)	(3,076)	(3,076)	(2,925)	
% of total assets	15.9.%	(11.3)%	(16.5)%	(16.5.)%	(15.7)%	

Duration Gap Analysis. The Bank also performs duration gap analysis to measure and manage interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses more on accounting income as opposed to the market value of the assets and liabilities. The Bank emphasizes duration gap analysis because, in the long run, its principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes. For duration gap analysis the Bank uses or assumes the same maturities for different assets and liabilities that it uses or assumes for the Bank's interest rate gap analysis.

The following table shows, on a separate basis, duration gaps and net asset value changes when interest rates decrease by one percentage point as of the specified dates.

Date	Asset Duration *(in years)*	Liability Duration *(in years)*	Duration Gap *(in years)*	Net Asset Value Change *(in billions of Won)*
Won-denominated:				
June 30, 2017	0.893	0.939	0.008	22
December 31, 2017	0.807	0.915	(0.051)	142
Foreign-currency denominated:				
June 30, 2017	0.618	0.466	0.067	12
December 31, 2017	0.539	0.528	(0.067)	12

The Bank sets interest rate risk limits using historical interest rate volatility of financial bonds and duration gaps with respect to expected asset and liability positions based on its annual business plans. The Risk Management Department submits interest rate gap analysis, duration gap analysis and interest rate risk limit compliance reports monthly to the Bank's Risk Management Council and quarterly to the Bank's Risk Management Committee.

The following table summarizes the Bank's interest rate risk, taking into account asset and liability durations as of December 31, 2017.

	As of December 31, 2017					
	0-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Total
	(in billions of Won, except percentages and maturities in years)					
Won-denominated:						
Asset position	₩ 108,128	₩ 73,525	₩ 42,512	₩ 28,790	₩ 23,871	₩ 276,825
Liability position	103,980	41,096	58,389	36,968	26,932	267,365
Gap	4,148	32,429	(15,878)	(8,178)	(3,061)	9,460
Average maturity (year)	0.246	0.489	0.969	2.786	5.215	
Interest rate volatility	(0.51)%	(0.62)%	(0.72)%	(0.91)%	(1.07)%	
Amount at risk	(21)	(82)	101	161	157	316
Foreign currency-denominated:						
Asset position	₩ 13,582	₩ 1,486	₩ 947	₩ 1,106	₩ 1,473	₩ 18,594
Liability position	10,622	6,549	1,911	1,115	1,322	21,519
Gap	2,960	(5,063)	(964)	(9)	151	(2,925)
Average maturity (year)	0.247	0.491	0.964	2.750	5.104	
Interest rate volatility	(1.33)%	(1.46)%	(1.41)%	(1.46)%	(1.54)%	
Amount at risk	(7)	35	9	(1)	(3)	34

Interest Rate VaR Analysis. Interest rate VaR is the estimated maximum possible loss on net non-trading assets due to unfavorable changes in interest rates. The Bank calculates interest rate VaR based on interest earning assets and interest bearing liabilities, excluding trading positions, at a 99.90 per cent. confidence level. The Bank's method of calculating the interest rate impact is a historical simulation method which uses actual historical price, volatility and yield changes in comparison with the current position to generate hypothetical portfolios and calculate a distribution of position and portfolio market value changes. The Bank believes that its interest rate VaR methodology allows the Bank to benefit from more sophisticated risk measurements using practical scenarios. Using the historical simulation method, the Bank's interest rate VaR was ₩95 billion as of December 31, 2015, ₩76 billion as of December 31, 2016 and ₩350 billion as of December 31, 2017.

Foreign Exchange Risk

The Bank manages foreign exchange rate risk arising from its non-trading operations together with such risks arising from its trading operations. See "*— Market Risk Management for Trading Activities — Foreign Exchange Risk*."

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 95 per cent. from January 1, 2018 to December 31, 2018 (compared to not less than 90 per cent. from January 1, 2017 to December 31, 2017), with such minimum liquidity coverage ratio to increase to 100 per cent. by 2019. The FSC defines the liquidity coverage ratio as the ratio of highly liquid assets to total net cash outflows over a 30-day 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. In addition, the FSC requires Korean banks, including the Bank, to maintain a foreign currency liquidity coverage ratio of not less than 70 per cent. from January 1, 2018 to December 31, 2018, with such minimum foreign currency liquidity coverage ratio to increase to 80 per cent. by 2019.

The Bank's Asset Liability Management Department is responsible for daily liquidity management of the Bank's Won and foreign currency exposure. It 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.

The following tables show the Bank's liquidity coverage ratio and foreign currency liquidity coverage ratio on an average balance basis for the month of December 2017 in accordance with FSC regulations:

Liquidity coverage ratio:		1 Month or Less
		(in billions of Won, except percentages)
Highly liquid assets (A)	₩	43,947
Cash outflows (B)		60,388
Cash inflows (C)		16,441
Total net cash outflows (D = B-C)		43,947
Liquidity coverage ratio (A/D)		100.00%
Minimum limit		90%

Foreign currency liquidity coverage ratio:		1 Month or Less
		(in millions of US$, except percentages)
Highly liquid assets (A)	US$	2,235
Cash outflows (B)		6,402
Cash inflows (C)		4,731
Total net cash outflows (D = B-C)		1,671
Liquidity coverage ratio (A/D)		133.76%
Minimum limit		60%

The Risk Management Department in the Bank's Risk Management Group reports whether the Bank is complying with these limits monthly to the Risk Management Council and quarterly to the Risk Management Committee.

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.

The Bank uses an operational risk management framework meeting the Basel II Advanced Measurement Approach, or AMA, under which the Bank:

- calculates its operational risk VaR on a quarterly basis using the "loss distribution approach VaR" and "scenario based VaR" methodology, and monitors operational risk in terms of Key Risk Indicators ("**KRI**") using tolerance levels for each indicator;

- executes integrated compliance and operational risk Control Self Assessments ("**CSAs**"), that enhance the effect on internal controls, which the Bank's employees are able to access and use for process improvement;

- collects and analyzes internal and external loss data;

- conducts scenario analyses to evaluate exposure to high-severity events;

- manages certain insurance-related activities relating to insurance strategies established to mitigate operational risk;

- examines operational risks arising in connection with the development of, changes in or discontinuance of products, policies or systems;

- uses a detailed business continuity plan covering all of its operations and locations to prepare against unexpected events, including an alternate back-up site for use in disaster events as well as annual full-scale testing of such site;

- refines bank-wide operational risk policies and procedures;

- provides appropriate training and support to business line operational risk managers; and

- reports overall operational risk status to the Bank's senior management.

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 CSAs and monitor KRIs. For example, the Bank has developed KRIs relating to customer data protection, which are applied and monitored at all domestic branches and offices. In addition, in order to strengthen risk management of its overseas operations, the Bank designates expert auditors for overseas branches and conducts internal audits designed especially to check key risks identified for each overseas branch. The Bank has also established a risk CSA system for overseas branches, pursuant to which all employees (including locally hired staff) of such branches are required to perform a risk CSA on a quarterly basis. Furthermore, the Bank regularly monitors operational risks related to new businesses as well as existing operating processes and seeks to develop appropriate new KRIs and risk CSA measures on an ongoing basis. Through such method, the Bank is able to ensure proper monitoring and measurement of operational risk in each of its business groups and overseas operations.

Internal Control

To monitor and control operational risks, the Bank maintains a system of comprehensive policies and has put in place a control framework designed to provide a stable and well-managed operational environment throughout its organization. The Bank has in place regular staff rotation and a mandatory leave policy for employees in certain high-risk categories to safeguard against fraud and to check for weaknesses in internal controls. In addition, the Bank maintains an external whistleblower "ombudsman" channel to encourage whistleblowing and voluntary reporting of fraudulent behavior.

The Bank establishes its internal control system in accordance with the group-level internal control principles established by KB Financial Group. The Bank reviews its operations and its level of compliance with internal control systems and business processes on a periodic basis and, as part of this process, the Bank is required to report any problems discovered and any remedial actions taken to KB Financial Group's chief compliance officer.

The Bank's Audit Department is the execution body for the Bank's Audit Committee and supports the Bank's management objectives by auditing the operations of its branches using a risk analysis system and reviewing the operations of its headquarters and subsidiaries through the use of "risk-based audit" in accordance with the "business measurement process" audit methodology, which requires that the Bank's Audit Department evaluate the risk and process of its business units and concentrate their audit capacity with respect to high risk areas. As a result of recent regulatory trends, the Bank's Audit Department is continuing its efforts to establish an advanced audit system and value-added internal audit by introducing risk-based audit techniques.

The FSS periodically conducts a general examination of the Bank's operations. The FSS also performs specific audits on particular aspects of the Bank's operations, such as risk management, credit monitoring and liquidity, as the need arises.

Legal Risk

The Bank considers legal risk as a part of its operational risk. The uncertainty of the enforceability of the obligations of its customers and counterparties creates legal risk. Changes in laws and regulations could also adversely affect the Bank. Legal risk is higher in new areas of business where the law is often untested in the courts, although legal risk can also increase in the Bank's traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. The Bank's Compliance Supporting Department seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers.

IT System Operational Risk

The integrity of the Bank's IT systems, and its ability to withstand potential catastrophic events, is crucial to the Bank's continuing operations. Accordingly, the Bank is continuing to strengthen its disaster recovery capabilities. In order to minimize operational risks relating to its IT systems, the Bank has implemented a multi-CPU system that runs multiple CPUs simultaneously on-site and ensures system continuity in case any of the CPUs fail. This system backs up the Bank's data systems at an off-site location on a real-time basis to ensure that its operations can be carried out normally and without material interruption in the event of CPU failure. Also, in order to protect the Bank's Internet banking services from system failures and cyber attacks, the Bank processes its Internet transactions through three separate data processing centers.

The Bank currently tests its disaster recovery systems on a quarterly basis, with the comprehensive testing including branches and the main IT center's disaster recovery system. The Bank's disaster recovery capabilities involve a number of other operations, including call center transactions. Internally, the Bank's IT Operations Department monitors all of its computerized network processes and its IT systems. This department monitors and reports on any unusual delays or irregularities reported by the Bank's branches. In addition, the Bank's Information Security Department is responsible for the daily monitoring of the Bank's entire information security system.

The Bank has taken steps to establish a comprehensive security system aimed at detecting and responding to internal and external threats to its IT system and has implemented network segregation on the computers of all employees so that Intranet and Extranet functions are segregated. The Bank has endeavored to enhance protection of customer data by using personal identification numbers internally generated and managed by the Bank in all customer financial transaction, in lieu of the resident registration numbers of its customers, and by amending forms and templates to minimize collection of potentially sensitive customer data. The Bank's chief information security officer is responsible for ensuring protection of information assets and technologies and reducing IT risks.

In 2009, the Bank obtained ISO 27001 certification, which relates to information security. In 2011, the Bank also obtained ISO 20000 certification, which relates to IT service management, and BS 25999 certification, which relates to business continuity management. The Bank is the first Korean bank to have obtained all three such international certifications. In addition, in 2013, the Bank obtained ISMS certification, which relates to information security management.

The Bank implements various year-round education programs and training sessions designed to raise the information security awareness of both management and employees.

MANAGEMENT OF THE BANK

Directors and Senior 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.

In respect of the members of the Bank's board of directors and senior management, there are no potential conflicts between their duties to the Bank and their other duties or private interests. The business address of all of the directors is the Bank's registered office at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul 07331, 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
In Hur	1961	President and CEO	November 21, 2017	November 20, 2019
Pyoung Seob Oh	1960	Senior Executive Vice President; Sales Group	January 1, 2018	December 31, 2018

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
Seung Tae Lim	1955	Non-executive Director	March 22, 2018	March 21, 2020
Sook Kyo Kwon	1957	Non-executive Director	October 26, 2017	March 21, 2019
Soon Ae Park	1965	Non-executive Director	March 26, 2015	March 21, 2019
Seung Weon Yoo	1965	Non-executive Director	March 26, 2015	March 21, 2019

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
Kwi Sang Jun	1960	Senior Executive Vice President; Shared Service Group
Jeong Lim Park	1963	Senior Executive Vice President; Wealth Management Group
Nam Il Kim	1962	Senior Managing Director; SME/SOHO Customer Group
Chang Won Kim	1961	Senior Managing Director; Trust Group
Bo Youl Oh	1961	Senior Managing Director; Corporate Investment Banking Customer Group
Gye Sung Lee	1963	Senior Managing Director; Credit Group
Nam Jong Seo	1963	Senior Managing Director; Risk Management Group
Sang Hyo Lee	1960	Senior Managing Director; Chief Compliance Officer
Young Tae Park	1961	Senior Managing Director; Data Strategy Division
Jae Hong Park	1967	Senior Managing Director; Global Business Division
Jae Keun Lee	1966	Managing Director; Strategy & Finance Planning Group
Hwan Ju Lee	1964	Managing Director; Retail Customer Group
Dong Hwan Han	1965	Managing Director; Digital Business Group
Chai Hyun Sung	1965	Managing Director; Consumer Brand Strategy Group
Woo Yeul Lee	1964	Managing Director; Information Technology Group
Gil Sung Lee	1962	Managing Director; Foreign Exchange Business Division
Jeong Ha	1967	Managing Director; Capital Markets Division
Hyuk Woon Kwon	1964	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, 2017 was ₩16,610 million. In addition, for the year ended December 31, 2017, the Bank set aside ₩238 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:

(a) the Audit Committee;

(b) the Risk Management Committee;

(c) the Evaluation & Compensation Committee;

(d) the Non-executive Director Nominating Committee;

(e) the Audit Committee Member Nominating Committee; and

(f) the President 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, Sook Kyo Kwon, Soon Ae Park and Seung Weon Yoo. The chairperson of the Audit Committee is Sook Kyo Kwon. The Audit Committee oversees the Bank's financial reporting and approves the appointment of the Bank's independent accountants. 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, Soon Ae Park and Sook Kyo Kwon, and one executive director, Pyoung Seob Oh. The chairperson of the Risk Management Committee is Sook Ae Park. 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 of the Bank*."

Evaluation & Compensation Committee

The Evaluation & Compensation Committee currently consists of two non-executive directors, Seung Tae Lim and Seung Weon Yoo, and one executive director, Pyoung Seob Oh. The chairperson of the Evaluation & Compensation Committee is Seung Weon Yoo. 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, Seung Tae Lim, Sook Kyo Kwon, Soon Ae Park and Seung Weon Yoo. 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 consists of four non-executive directors, Seung Tae Lim, Sook Kyo Kwon, Soon Ae Park and Seung Weon Yoo. 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.

President Nominating Committee

The committee currently consists of four non-executive directors, Seung Tae Lim, Sook Kyo Kwon, Soon Ae Park and Seung Weon Yoo. The committee oversees the selection of candidates for the Bank's President and recommends them sometime prior to a general stockholders meeting at which the President is to be elected. The term of office of its members is from the first meeting of the committee held to nominate the President until the President is appointed.

REGULATION AND SUPERVISION OF THE BANK

Legal and Regulatory Framework in Korea

Overview

The banking system in Korea is governed by the Bank Act and the Bank of Korea Act. In addition, Korean banks are subject to the 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 with a focus on financial stability. 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 a trust business, must obtain approval from the FSC. Approval to merge with any other banking institution, to liquidate, spin off or close a banking business or to transfer all or a part of a 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 or warnings with respect to its officers;
- 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;
- disposals of property holdings or closures of subsidiaries or branch offices or downsizing;

- stock cancelations or consolidations;
- mergers with other financial institutions;
- acquisition of such bank by a third party; and
- 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 per cent. 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 for 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 Basel II. Under such requirements, all domestic banks and foreign bank branches are required to meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8 per cent. 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 to risk-weighted assets of 3.5 per cent. and Tier I capital to risk-weighted assets of 4.5 per cent. from December 1, 2013, which minimum ratios were increased to 4.0 per cent. and 5.5 per cent., respectively, from January 1, 2014 and increased further to 4.5 per cent. and 6.0 per cent., 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 per cent., which remains unchanged. The amended regulations also require an additional capital conservation buffer of 1.25 per cent. in 2017 and 1.875 per cent. in 2018, with such buffer to increase to 2.5 per cent. by 2019, as well as a potential counter-cyclical capital buffer of up to 2.5 per cent., which is determined on a quarterly basis by the FSC. Furthermore, the Bank was designated as one of five domestic systemically important banks for 2017 by the FSC and was subject to an additional capital requirement of 0.50 per cent. in 2017. In June 2017, the Bank was again designated as a domestic systemically important bank for 2018, which would subject the Bank to an additional capital requirement of 0.75 per cent. in 2018, with such potential requirement to increase to 1.0 per cent. 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 per cent. (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 per cent. or 70 per cent.; 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 per cent. 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 30-day period) of not less than 95 per cent., from January 1, 2018 until December 31, 2018, with such minimum liquidity coverage ratio to increase to 100 per cent. by 2019;

- maintain a foreign currency liquidity coverage ratio of not less than 70 per cent. from January 1, 2018 until December 31, 2018, with such minimum foreign currency liquidity coverage ratio to increase to 80 per cent. in 2019; and

- submit monthly reports with respect to the maintenance of these ratios.

The MPC of the BOK is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratios are:

- 7 per cent. of average balances for Won currency demand deposits outstanding;

- 0 per cent. 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 per cent. 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 per cent. 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 per cent. minimum reserve ratio is applied to other deposits. A 1 per cent. 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, under the Regulation on the Supervision of the Banking Business, the Bank is required to maintain a minimum "mid- to long-term foreign exchange funding ratio" of 100 per cent. "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.

Amendments Relating to Net Stable Funding Ratio and Leverage Ratio Requirements

Effective January 31, 2018, the FSC implemented amendments to the Regulation on the Supervision of the Banking Business that impose certain liquidity- and leverage-related ratio requirements on banks in Korea, in accordance with Basel III. Pursuant to these amendments, each Korean bank is required to:

- maintain a net stable funding ratio (defined as the ratio of the available amount of stable funding to the required amount of stable funding) of not less than 100 per cent., where (i) the available amount of stable funding generally refers to the portion of liabilities and capital expected to be reliable over a one-year time horizon and (ii) the required amount of stable funding generally refers to the portion of assets requiring stable funding over a time horizon of one year or longer, each as calculated in accordance with the Detailed Regulation on the Supervision of the Banking Business;

- maintain a leverage ratio (defined as the ratio of core capital to total exposures) of not less than 3 per cent., where (i) core capital includes paid-in capital, capital surplus, retained earnings and hybrid Tier I capital instruments and (ii) total exposures include on-balance sheet exposures and off-balance sheet exposures, each as calculated in accordance with the Detailed Regulation on the Supervision of the Banking Business; and

- submit monthly reports with respect to the maintenance of these ratios.

Financial Exposure to Any Individual Customer or Major Shareholder

Under the Bank Act, subject to certain exceptions, the sum of large exposures by a bank — in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10 per cent. 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 per cent. 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 per cent. 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 also provides for certain restrictions on extending credits 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 per cent.; (or 15 per cent. 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 per cent. 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 per cent. 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 investment company under the FSCMA of which any single shareholding group identified in (i) or (ii) above, owns more than 4 per cent. of the total issued and outstanding shares.

Under these restrictions, 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 per cent. of the sum of the bank's Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholder's 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 per cent. 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 and the regulations thereunder, interest rates on loans made by registered banks in Korea to individuals or small corporations, as defined under the Framework Act on Small and Medium Enterprises, may not exceed 24 per cent. per annum. Historically, interest rates on deposits and lending were regulated by the MPC. There are no controls on deposit interest rates in Korea, except for the prohibition on interest payments on current account deposits.

Lending to SMEs

In order to obtain funding from the BOK at concessionary rates for their SME loans, 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 per cent. in the case of nationwide banks and 60 per cent. in the case of regional banks. If a bank does not 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:

  (i) loans bearing no profit made to a single business group in an amount exceeding 10 per cent. 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; and

  (ii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1 per cent. 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 and its sub-regulations, 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 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 70 per cent.;

- as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (including apartments) located in areas of high speculation, in each case, as designated by the Government, the loan-to-value ratio should not exceed 40 per cent., except that such maximum loan-to-value ratio is 50 per cent. for low-income households that (i) have an annual income of less than ₩70 million (or ₩80 million for first-home buyers), (ii) do not currently own any housing and (iii) are using the loan to purchase low-price housing valued at less than ₩600 million;

- as to any new loans secured by collateral of housing to be extended to a household, any member of which has already received one or more loans secured by collateral of housing, the maximum loan-to-value ratio is 10 per cent. lower than the applicable loan-to-value ratio described above;

- as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (including apartments) located in areas of high speculation, in each case, as designated by the Government, the borrower's debt-to-income ratio (calculated as (1) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such housing and (y) the interest on other debts of the borrower over (2) the borrower's annual income) should not exceed 40 per cent., except that such maximum debt-to-income ratio is 50 per cent. for low-income households that (i) have an annual income of less than ₩70 million (or ₩80 million for first-home buyers), (ii) do not currently own any housing and (iii) are using the loan to purchase low-price housing valued at less than ₩600 million;

- as to any new loans secured by collateral of housing to be extended to a household, any member of which has already received one or more loans secured by collateral of housing, the maximum debt-to-income ratio is 10 per cent. lower than the applicable debt-to-income ratio described above;
- as to apartments located in areas of high speculation as designated by the Government, a household is permitted to have only one new loan secured by such apartment; and
- where a household 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.

Restrictions on Investment in Property

A bank may not invest in securities set forth below in excess of 100 per cent. 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 per cent. 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 three years, unless specified otherwise by the regulations thereunder.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15 per cent. 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 exceptional cases, the total investment in corporations in which the bank owns more than 15 per cent. of the outstanding shares with voting rights may not exceed (i) 20 per cent. of the sum of Tier I and Tier II capital (less any capital deductions) or (ii) 30 per cent. 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 per cent. 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 per cent. of a nationwide bank's total issued and outstanding shares with voting rights and no more than 15 per cent. 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 per cent. (or 15 per cent. 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 per cent. limit (or the 15 per cent. limit in the case of a regional bank), in which case they may acquire beneficial ownership of up to 10 per cent. 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 per cent. of the shares of a bank.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4 per cent. of a nationwide bank's outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10 per cent. (or 15 per cent. in the case of a regional bank) of that bank's outstanding voting shares, and in excess of 10 per cent. (or 15 per cent. in the case of a regional bank), 25 per cent. or 33 per cent. 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 per cent. 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 per cent. (or 15 per cent. in the case of regional banks), 25 per cent. or 33 per cent. 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.

Restrictions on Foreign Exchange Position

Under the Foreign Exchange Transaction Act, each of a bank's net overpurchased and oversold positions may not exceed 50 per cent. of its shareholder's equity as of the end of the prior month.

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. 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.

The bank must make a special reserve of 25 per cent. or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5 per cent. of the trust amount.

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.

TAXATION

Korean Taxation

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-resident 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 Interest

Interest on the Notes paid to Non-Residents, being foreign currency denominated bonds issued outside of Korea, is exempt from individual and corporate income tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the "**STTCL**").

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14 per cent. of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10 per cent. of the income or corporation tax (raising the total tax rate to 15.4 per cent.).

The tax rates may be reduced by an applicable tax treaty, convention or agreement between Korea and the country of the recipient of the income.

In order to obtain the benefit of a reduced rate available under applicable tax treaties, a Non-Resident holder must submit an application for reduced rate to the party liable for the withholding before the receipt of the relevant interest payment (if there is no change in the contents of such application, it is not required to submit such application again within 3 years thereafter), together with a certificate of the Non-Resident holder's tax residence issued by a competent authority of the Non-Resident's resident country. If the Non-Resident holder was unable to receive the benefit of a reduced rate due to his or her failure to timely submit the aforementioned application, the Non-Resident holder may still receive a tax treaty benefit by submitting evidentiary documents to the relevant tax office within 5 years thereafter. If interest is paid to an overseas investment vehicle, the overseas investment vehicle (subject to certain exceptions) must submit a report of overseas investment vehicle and a schedule of beneficial owners. The foregoing matter is discussed in more detail below.

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 Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents from the transfer of the Notes taking place outside Korea are currently exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance and is denominated in a foreign currency under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11 per cent. (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 Note) 22 per cent. (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 tax law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Notes issued by Korean companies.

The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty and on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the Notes being sold, the purchaser or such withholding agent must withhold an amount equal to 11 per cent. (including local income tax) of the gross realization proceeds. The purchaser or withholding agent must pay any withholding tax to the competent Korean tax office no later than the tenth day of the month following the month in which the payment for the purchase of the relevant Notes 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.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was a Korean resident and (b) all property located in Korea that passes on death (irrespective of the residence of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10 per cent. to 50 per cent. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds 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 Notes 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.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the Holders in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by the Company. No securities transaction tax will be imposed upon the transfer of the Notes.

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, 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 15 per cent. (including local income tax), and the tax on capital gains is often eliminated.

A special withholding tax system took effect on July 1, 2006. Under the system, there is a special procedure to apply the Korea-Malaysia tax treaty on certain Korean source income. Payments made to the residents of Labuan, Malaysia will be subject to the default Korean withholding tax rates (generally 15.4 per cent. for interest and the lower of 11 per cent. of gross realization proceeds or 22 per cent. of capital gains (including local income tax)) rather than the reduced or exempted rate available under the Korea Malaysia tax treaty. A Labuan taxpayer, however, will be given an opportunity to obtain a refund by proving that it is entitled to the tax treaty benefits as a beneficial owner of the income and is an actual resident of Labuan, Malaysia. A Labuan taxpayer may also file an application with the National Tax Service (the "**NTS**") for confirmation that it is entitled to the tax treaty benefits and obtain an advance confirmation from the NTS prior to receiving Korean source income.

In order for a Non-Resident to obtain the benefit of a tax exemption on certain Korean source incomes, such as interest and 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 a tax treaty 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. An application for tax exemption 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.

If the Korean source incomes are paid to Non-Residents through an overseas investment vehicle, such investment vehicle must obtain an application for tax exemption from each Non-Resident, who are the beneficial owners of the Korean source income and submit to the payer of such Korean source income an overseas investment vehicle report, together with the applications for tax exemption prepared by the Non-Resident beneficial owners. An overseas investment vehicle means an organization established outside of Korea that manages funds collected through investment solicitation by way of acquiring, disposing of, or otherwise investing in investment targets and distributes the outcome of such management to investors.

However, this requirement does not apply to exemptions under Korean tax law.

At present, Korea has not entered into any tax treaties regarding its inheritance or gift tax.

Withholding and Gross Up

As mentioned above, interest on the Notes is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to STTCL. However, in the event that the payer or the Company is 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 Notes — Taxation and Gross-Up*") the Company has agreed to pay (subject to the customary exceptions as set out in "*Terms and Conditions of the Notes — Taxation and Gross-Up*") such Additional Amounts as may be necessary in order that the net amounts received by the holder of any Note 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.

The Proposed Financial Transactions Tax ("FTT")

The European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State.

A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT remains subject to negotiation between participating Member States. 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 Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Mizuho Securities Asia Limited, Société Générale and Standard Chartered Bank (the "**Managers**") have, pursuant to a Subscription Agreement (the "**Subscription Agreement**") dated July 31, 2018, agreed to subscribe and pay for, or to procure subscriptions and payment for, the principal amount of the Notes subject to certain conditions contained therein.

The Issuer will also reimburse the Managers in respect of certain of their expenses, and the Issuer and the Guarantor have agreed to indemnify the Managers against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue and sale of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Issuer.

The initial issue price is set forth on the cover of this Offering Circular. After the Notes are released for sale, the Managers may change the issue price and other selling terms. The offering of the Notes by the Managers is subject to receipt and acceptance and subject to the Managers' right to reject any order in whole or in part.

The Managers and certain of their respective affiliates have, from time to time, performed, and may in the future perform, certain investment banking, commercial banking and advisory services for the Issuer, the Guarantor and/or their respective affiliates for which they have received or will receive customary fees and expenses.

The Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer and the Guarantor.

The Managers or their affiliates may subscribe the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be subscribers of the Notes).

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Manager or its affiliate on behalf of the Issuer in such jurisdiction.

Selling Restrictions

Unites States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("**Regulation S**").

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes and the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes and the Guarantee during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantee, an offer or sale of Notes and the Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

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 Notes 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 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Manager 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 Notes to the public" in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, 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 (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; 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 Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented 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 Notes other than (a) to "professional investors" as defined in the Notes 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 Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Manager has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, 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 Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)), the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes 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.

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Korea

The Notes have not been registered under the FSCMA. Accordingly, the notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree), for a period of one year from the issuance of the notes, except (i) where relevant requirements are satisfied, the notes may be offered, sold or delivered to or for the account or benefit of a Korean resident that falls within certain categories of professional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, or (ii) as otherwise permitted under applicable Korean laws and regulations.

Transfer Restrictions

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any offer, resale, pledge or other transfers of the Notes.

Transfer Restrictions under Korean Law

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

(a) The Notes have not been registered under the FSCMA. Accordingly, the notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea (as such term is defined in the Foreign Exchange Transactions Law of Korea and its Enforcement Decree), for a period of one year from the issuance of the notes, except (i) where relevant requirements are satisfied, the notes may be offered, sold or delivered to or for the account or benefit of a Korean resident that falls within certain categories of professional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, or (ii) as otherwise permitted under applicable Korean laws and regulations.

(b) The Notes will bear legends to the effect described in paragraph (a) above.

Other Transfer Restrictions Applicable to the Notes

The Notes and the Guarantee have not been and will not be registered under the Securities Act. The Notes and the Guarantee may not be offered or sold to any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Except in certain limited circumstances, interests in the Notes may only be held through interests in the Global Certificates. Such interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear, Clearstream and their respective direct and indirect participants. See "*Terms and Conditions of the Notes*" and "*The Global Certificates*."

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

(a) The Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States or any other jurisdiction and are subject to significant restrictions on transfer.

(b) Until forty (40) days after the commencement of offering of the Notes, an offer or sale of Notes and the Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(c) Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Notes or the Guarantee except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

(d) The Notes will bear legends to the following effect, unless the Issuer determines otherwise in compliance with applicable law, and such purchaser will observe the restrictions contained therein:

THE NOTES EVIDENCED HEREBY (THE "**NOTES**") OF LOTTE PROPERTY & DEVELOPMENT CO., LTD. (THE "**ISSUER**") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**").

PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE LATEST CLOSING DATE (THE "**DISTRIBUTION**

COMPLIANCE PERIOD”), THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY U.S. PERSON OUTSIDE THE UNITED STATES OR ANY PERSON IN THE UNITED STATES. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE NOTES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

THE FOREGOING PARAGRAPH WILL BE NO LONGER EFFECTIVE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD WITH RESPECT TO THE NOTES, AFTER WHICH THE NOTES EVIDENCED HEREBY WILL NO LONGER BE SUBJECT TO THE RESTRICTIONS SET FORTH THEREIN, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE NOTES EVIDENCED HEREBY WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE “**FSCMA**”). ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED IN THE FOREIGN EXCHANGE TRANSACTIONS LAW OF KOREA AND ITS ENFORCEMENT DECREE), FOR A PERIOD OF ONE YEAR FROM THE ISSUANCE OF THE NOTES, EXCEPT (I) WHERE RELEVANT REQUIREMENTS ARE SATISFIED, THE NOTES MAY BE OFFERED, SOLD OR DELIVERED TO OR FOR THE ACCOUNT OR BENEFIT OF A KOREAN RESIDENT THAT FALLS WITHIN CERTAIN CATEGORIES OF PROFESSIONAL INVESTORS AS SPECIFIED IN THE FSCMA, ITS ENFORCEMENT DECREE AND THE REGULATION ON SECURITIES ISSUANCE AND DISCLOSURE, OR (II) AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS.

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Notes will be passed upon for the Issuer by Yulchon LLC as to matters of Korean law, for the Guarantor by Cleary Gottlieb Steen & Hamilton LLP as to matters of New York law and for the Managers by Linklaters LLP as matters of New York law. Yulchon LLC may rely as to all matters of New York law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP, and Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP may rely as to all matters of Korean law on the opinion of Yulchon LLC.

INDEPENDENT ACCOUNTANTS

The annual financial statements of the Issuer as of and for the year ended December 31, 2017 have been audited by KPMG Samjong Accounting Corp., independent auditors, as stated in their audit report included in this Offering Circular. The annual financial statements of the Issuer as of and for the year ended December 31, 2016 included in this Offering Circular have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report appearing herein.

The annual consolidated financial statements of the Guarantor as of and for the years ended December 31, 2017, 2016 and 2015 included in this Offering Circular have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report appearing herein. With respect to the unaudited interim consolidated financial statements of the Guarantor as of March 31, 2018 and for the three months ended March 31, 2018 and 2017 included herein, Samil PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated May 14, 2018 appearing herein states that they did not audit and that they do not express an opinion on such unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

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Independent Auditors' Report

The Board of Directors and Shareholders
Lotte Property & Development Co., Ltd.:

We have audited the accompanying financial statements of Lotte Property & Development Co., Ltd. (the "Company"), which comprise the statement of financial position as of December 31, 2017, the statements of comprehensive income, changes in equity and cash flows for the year 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 Korean International Financial Reporting Standards, 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 audit. We conducted our audit in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 our 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, we consider 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 financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

The accompanying statement of financial position of the Company as of December 31, 2016, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended were audited by other auditors, whose report thereon dated March 27, 2017, expressed an unqualified opinion.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 18, 2018

This report is effective as of March 18, 2018, 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 financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Independent Auditor's Report

To the Board of Directors and Shareholders of Lotte Property & Development Co., Ltd.

We have audited the accompanying financial statements of Lotte Property & Development Co., Ltd. (the Company), which comprise the statements of financial position as at December 31, 2016 and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the 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 significant 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 financial statements present fairly, in all material respects, the financial position of Lotte Property & Development Co., Ltd. as at December 31, 2016, and its financial performance and cash flows for the year 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 27, 2017

This report is effective as of March 27, 2017, 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 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.

Lotte Property & Development Co., Ltd.
Statements of Financial Position

As of December 31, 2017 and 2016

	Notes		Korean won (thousands) December 31, 2017	December 31, 2016
Assets				
Cash and cash equivalents	4,5,6,7	₩	268,734,262	237,426,747
Trade receivables	4,5,6,8		10,395,343	7,721,371
Other receivables	4,5,6,8		18,499,524	14,261,113
Other financial assets	4,5,6,9		4,215,659	4,272,800
Other non-financial assets	10,31,32		9,502,567	22,636,651
Inventories	11,32		1,135,568,105	1,012,930,917
Income tax receivable			635,451	547,306
Total current assets			1,447,550,911	1,299,796,905
Long-term trade receivables	4,5,6,8		431,310	-
Investments in associates	12		3,605,790,344	2,991,613,869
Other financial assets	4,5,6,9		12,029,707	327,041
Other non-financial assets	10		1,539,374	-
Property, plant and equipment, net	13		3,352,060,322	3,188,376,198
Intangible assets, net	14		9,554,177	5,887,159
Total non-current assets			6,981,405,234	6,186,204,267
Total assets		₩	8,428,956,145	7,486,001,172

See accompanying notes to the financial statements.

Lotte Property & Development Co., Ltd.
Statements of Financial Position, Continued

As of December 31, 2017 and 2016

	Notes		Korean won (thousands) December 31, 2017	December 31, 2016
Liabilities				
Other payables	4,5,6,15,32	₩	203,856,324	132,709,509
Short-term borrowings	4,5,6,18,31		950,000,000	810,000,000
Current portion of long-term borrowings and bonds	4,5,6,18,31,32		988,160,502	229,986,179
Other financial liabilities	4,5,6,16		17,651,187	23,592,337
Other non-financial liabilities	17		21,948,583	423,010
Total current liabilities			2,181,616,596	1,196,711,035
Long-term borrowings and bonds	4,5,6,18		256,370,297	983,154,775
Other financial liabilities	4,5,6,16		117,511,034	30,985,381
Other non-financial liabilities	17		47,219,856	3,892,099
Employee benefit liabilities	20		216,506	187,787
Defined benefit liabilities	19		446,921	149,451
Deferred income tax liabilities	21		837,076,099	769,958,527
Total non-current liabilities			1,258,840,713	1,788,328,020
Total liabilities			3,440,457,309	2,985,039,055
Equity				
Capital stock	22		297,244,400	297,244,400
Capital surplus	22		117,042,747	52,968,954
Accumulated other comprehensive income(loss)	23		(88,183,484)	28,276,317
Retained earnings	24		4,662,395,173	4,122,472,446
Total equity			4,988,498,836	4,500,962,117
Total liabilities and equity		₩	8,428,956,145	7,486,001,172

See accompanying notes to the financial statements.

Lotte Property & Development Co., Ltd.

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

			Korean won (thousands, except for earnings per share)	
	Notes		**2017**	**2016**
Sales	32	₩	319,298,757	156,741,113
Cost of sales	26,32		(288,128,366)	(111,158,689)
Gross profit			31,170,391	45,582,424
Selling, general and administrative expenses	25,26,32		(77,986,683)	(35,780,650)
Operating profit (loss)			(46,816,292)	9,801,774
Other income	27		190,866	732,571
Other expenses	27		(10,925,802)	(9,788,244)
Finance income	6,28		24,418,332	2,000,047
Finance costs	6,28		(56,923,663)	(52,328,631)
Income from equity method investments	12		701,659,757	666,165,789
Profit before income tax			611,603,198	616,583,306
Income tax expense	21		(66,598,924)	(70,934,251)
Profit for the year			545,004,274	545,649,055
Other comprehensive income (loss)				
Items that will never be reclassified to profit or loss:				
Remeasurements of net defined benefit liabilities	19,24		(1,258,351)	94,798
Items that are or may be reclassified to profit or loss:				
Net change in unrealized fair value of available-for-sale financial assets	6,23		602	907
Net change in fair value of available-for-sale reclassified to profit or loss	6,23		(5,815)	-
Gain(loss) in capital of of equity method	23		(116,454,589)	29,320,163
Change in retained earnings of equity method investees	24		(3,823,196)	(23,982,944)
Other comprehensive income (loss), net of tax			(121,541,349)	5,432,924
Total comprehensive income for the year			423,462,925	551,081,979
Earnings per share	29			
Basic earnings per share (in won)		₩	9,168	9,178

See accompanying notes to the financial statements.

Lotte Property & Development Co., Ltd.
Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

		Korean won (thousands)				
		Capital stock	**Capital surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total equity**
Balance at January 1, 2016	₩	297,244,400	55,518,404	(1,044,753)	3,600,711,537	3,952,429,588
Total comprehensive income for the year						
Profit for the year		-	-	-	545,649,055	545,649,055
Other comprehensive income						
Net change in unrealized fair value of available-for-sale financial assets		-	-	907	-	907
Remeasurements of net defined benefit liabilities		-	-	-	94,798	94,798
Change in capital surplus of equity method		-	(2,549,450)	-	-	(2,549,450)
Change in gain on valuation of investment capital ofequity method		-	-	29,320,163	-	29,320,163
Change in retained earnings ofequity method		-	-	-	(23,982,944)	(23,982,944)
Other comprehensive income		-	(2,549,450)	29,321,070	(23,888,146)	2,883,474
Total comprehensive income for the year		-	(2,549,450)	29,321,070	521,760,909	548,532,529
Balance at December 31, 2016	₩	297,244,400	52,968,954	28,276,317	4,122,472,446	4,500,962,117

See accompanying notes to the financial statements.

Lotte Property & Development Co., Ltd.
Statements of Changes in Equity, Continued

For the years ended December 31, 2017 and 2016

		Korean won (thousands)				
		Capital stock	**Capital surplus**	**Accumulated other comprehensive income**	**Retained earnings**	**Total equity**
Balance at January 1, 2017	₩	297,244,400	52,968,954	28,276,317	4,122,472,446	4,500,962,117
Total comprehensive income for the year						
Profit for the year		-	-	-	545,004,274	545,004,274
Other comprehensive income						
Net change in unrealized fair value of available-for-sale financial assets		-	-	(5,212)	-	(5,212)
Remeasurements of net defined benefit liabilities		-	-	-	(1,258,351)	(1,258,351)
Change in capital surplus of equity method		-	64,073,793	-	-	64,073,793
Change in gain on valuation of investment capital of equity method		-	-	(116,454,589)	-	(116,454,589)
Change in retained earnings of equity method		-	-	-	(3,823,196)	(3,823,196)
Other comprehensive loss		-	64,073,793	(116,459,801)	(5,081,547)	(57,467,555)
Total comprehensive income for the year		-	64,073,793	(116,459,801)	539,922,727	487,536,719
Balance at December 31, 2017	₩	297,244,400	117,042,747	(88,183,484)	4,662,395,173	4,988,498,836

See accompanying notes to the financial statements.

Lotte Property & Development Co., Ltd.
Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	Notes		Korean won (thousands) 2017	2016
Cash flows from operating activities				
Net income		₩	545,004,274	545,649,055
Adjustments for				
Income tax expenses	21		66,598,924	70,934,251
Depreciation expenses	13		80,624,327	42,778,753
Amortization expenses on intangible assets	14		3,506,963	1,649,900
Severance benefits	19		1,074,376	997,782
Long-term employee benefits	20		68,688	65,925
Interest expenses	28		56,923,663	45,848,631
Foreign currency translation loss	28		-	6,480,000
Bad debt expenses	25		16,504	-
Miscellaneous losses			7,500	-
Donations			43,387	-
Losses on disposition of property, plant, and equipment			83,139	-
Impairment losses on intangible assets	27		561,728	-
Gains on disposition of investments in associates	12,28		(11,632,314)	-
Gains on disposition of available-for-sale financial assets	28		(7,671)	-
Interest revenues	28		(4,008,348)	(2,000,047)
Foreign currency translation gain	28		(8,770,000)	-
Amortization on long-term unearned revenues	17		(3,332,478)	(1,400,742)
Income from equity method investments	12		(701,659,757)	(666,165,789)
Changes in operating assets and liabilities				
Trade receivables			(2,690,475)	(1,868,424)
Long-term trade receivables			(430,340)	-
Other payables			(3,489,864)	2,474,575
Other current assets			9,906,513	(16,101,883)
Inventories			92,659,931	23,630
Other non-current assets			189,684	(234,834)
Other payables			11,096,245	601,673
Other financial current liabilities			21,770,958	221,943
Other non-current liabilities			121,737,759	(3,535,925)
Employee benefit long-term liabilities			(39,969)	(28,523)
Income tax refund received (paid)			870,243	(1,161,523)
Net cash generated from operating activities			276,683,590	25,228,428
Cash flows from investing activities				
Interest received			3,251,330	1,982,867
Dividends received	12		42,875,272	26,797,045
Disposal of available-for-sale financial assets			66,051	-
Decrease of deposits			448,495	-
Proceeds from disposal of property, plant and equipment	13		-	3,500,580
Purchase of current financial assets			-	(72,800)
Acquisition of property, plant and equipment	13		(406,883,000)	(424,257,084)
Acquisition of intangible assets	14		(702,765)	(496,636)
Increase of deposits			(12,219,276)	-
Net cash used in investing activities			(373,163,893)	(392,546,028)

See accompanying notes to the financial statements.

Lotte Property & Development Co., Ltd.
Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

	Notes		Korean won (thousands)	
			2017	**2016**
Cash flows from financing activities	31			
Increase of short-term borrowings			490,000,000	610,000,000
Increase of long-term borrowings			269,700,000	200,000,000
Payment of current portion of bonds			(80,000,000)	(210,000,000)
Payment of short-term borrowings			(450,000,000)	-
Payment of current portion of long-term borrowings			(50,000,000)	-
Interest paid			(51,912,182)	(42,145,337)
Net cash provided by financing activities		₩	127,787,818	557,854,663
Net increase in cash and cash equivalents			31,307,515	190,537,063
Cash and cash equivalents at January 1			237,426,747	46,889,684
Cash and cash equivalents at December 31		₩	268,734,262	237,426,747

See accompanying notes to the financial statements.

1. General Description of Reporting Entity

Lotte Property & Development Co., Ltd. (the "Company") was founded on June 15, 1982 and obtained a foreign investment approval in the tourism and hotel business pursuant to the Foreign Capital Inducement Act of Korea on August 1, 1988. The Company's current main operations include operating the Lotte World Tower and Lotte World Mall upon completion of the Lotte World Tower construction business project.

When incorporated, the amount of the Company's capital was ₩1 million. After the construction was completed, the capital stock amounted to ₩297,244 million as of December 31, 2017 through multiple capital increases, and the composition of shareholders as of December 31, 2017 is as follows.

Shareholder	Number of shares	Percentage of ownership (%)
Lotte Holdings Co., Ltd.	33,881,736	56.99
Hotel Lotte Co., Ltd.	18,508,174	31.13
Others	7,058,970	11.88
Total	59,448,880	100.00

2. Significant Accounting Policies

1) Basis of preparation

The financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Stock Corporation in the Republic of Korea.*

The financial statements were authorized for issuance by the Board of Directors February 14, 2018, which are subject to final approval by the shareholders' meeting.

2) Changes in accounting policy

Except for the effect of the amendments to K-IFRS and new interpretations set out below, the principal accounting policies used to prepare the financial statements as of and for the year ended December 31, 2017 are consistent with the accounting policies used to prepare the financial statements as of and for the year ended December 31, 2016.

The Company has adopted the following amendments to standards and new standard with a date of initial application of January 1, 2017. The adoption did not have any significant effect on the financial statements.

✓ Amendments to K-IFRS 1007 'Statement of Cash Flows'
The Company is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (Note 31).

✓ Amendments to K-IFRS 1012 'Income Taxes'
The Company is required to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. And the estimate of probable future taxable profit may include the recovery of some of the Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve this.

2. Significant Accounting Policies, Continued

3) Investments in associates

Associates are the companies over which the Company has significant influence and the related investment is recognized at acquisition cost and subsequent measured under the equity method. Subsequent to initial recognition, the financial statements include the Company's share of the associate's profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases to exist. In addition, if there is an objective evidence of impairment, the company recognizes the difference between the recoverable amount and the carrying amount of the investment in the related company as an impairment loss.

4) Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Company's operations are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Korean won, which is the Company (except for foreign branches)'s functional and presentation currency.

(2) 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.

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.

5) Financial assets

(1) Classification and measurement

The Company classifies its financial assets in 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 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.

2. Significant Accounting Policies, Continued

5) Financial assets, continued

(2) 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. Impairment of other financial assets is directly deducted from their carrying amount. 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 significant or prolonged decline in the fair value of an available-for- sale equity instrument significantly from its cost is also objective evidence of impairment.

(3) Derecognition

If the Company transfers a financial asset and the transfer does not result in derecognition because the Company has retained substantially all 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.

6) Property, plant and equipment

Property, plant and equipment are stated at its cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Depreciation on other assets except of 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(years)
Buildings	10 – 50
Structures	40
Machinery	15
Furniture and fixtures	5
Tools and equipment	5

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

7) 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. Significant Accounting Policies, Continued

8) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with finite useful lives are amortized using the straight-line method over 5 to 10 years for industrial property rights and over 5 years for software and other intangible assets over. The Company reviews the appropriateness of useful life at the end of the year and if change needs to be made, such change is accounted for as change of accounting estimate. However, memberships, which are intangible assets with infinite useful lives, are not amortized.

9) Impairment of non-financial assets

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, which are previously impaired are reviewed for possible reversal of the impairment at each reporting date.

10) Financial liabilities

(1) 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 present the related balances as 'trade payables', 'financial instrument liabilities' and 'other payables' in the statement of financial position.

(2) 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.

2. Significant Accounting Policies, Continued

11) Current and deferred tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The 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 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 associates, 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.

12) Employee benefits

(1) Present value of defined benefit obligations

The Company operates defined benefit plan, and generally makes contributions calculated based on periodic actuarial calculations to separately administered funds such as qualifying insurance companies or trust funds.

The Company operates the defined benefit plan. 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. 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.

2. Significant Accounting Policies, Continued

12) Employee benefits, continued

(2) Long-term employee benefits

The Company provides long-term employee benefits to long-term employees. The right to receive this benefit is granted only to employees who have worked for a long period of time, often for more than five years. Other long-term employee benefits are measured in the same manner as defined benefit plans, and the net amount and re-measurement factors of working costs and other long-term employee benefit liabilities are recognized in profit or loss. In addition, these liabilities are valued by independent and qualified actuaries every year.

13) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Company's activities. Revenue is presented net of value-added tax, returns, rebates and discounts. The Company recognizes revenue when the amount of revenue can be reliably measured, 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.

Revenue from the sales of goods is recognized at the time of goods that are delivered to purchasers, while revenue from providing services is recognized when outcome of transactions from services that are provided is reliably measured and when the service is rendered. Interest income is recognized using the effective interest method. When receivables are impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

14) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2017, and the Company has not early adopted them.

(1) Amendments to K-IFRS 1102 'Share based payment method'

When cash settlement method is changed to equity settlement method, conditional change in accounting and fair value measurement on the cash settled-share based payment transaction is same as for equity settled share based payment transaction. The amendment will be effective from the beginning of the fiscal year or after January 1, 2018, but early adoption can be made. The Company expects there will be no material impact on its financial statements due from the amendments.

(2) K-IFRS 1109 'Financial Instruments'

K-IFRS 1109, published on September 25, 2015 replaces existing guidance in the K-IFRS 1039 Financial Instruments: Recognition and Measurement, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company currently plans to apply K-IFRS 1109 for the year beginning on January 1, 2018.

2. Significant Accounting Policies, Continued

14) New standards and interpretations not yet adopted, continued

K-IFRS 1109 will generally be applied retrospectively, except for the following:

- Exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement including impairment changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of the new standard K-IFRS 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment methodology reflects 'expected credit losses' (ECL) model for financial assets, and expanded scope of hedged items and hedging instrument which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

To ensure smooth implementation of K-IFRS 1109, the Company needs to assess the financial impact of adopting K-IFRS 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS 1109 on the Company's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Company plans to change the accounting process and internal control and to assess the financial impact on its financial statements resulting from the adoption of K-IFRS 1109 by December 31, 2017. Expected impacts on financial statements upon adoption of K-IFRS 1109 are generally categorized as follows:

Classification and measurement of financial assets

Classification of financial assets under K-IFRS 1109 is driven by the entity's business model for managing financial assets and their cash flow characteristic. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models cash flow characteristic are as follows:

	Contractual cash flow characteristics	
Business model assessment	Solely payments of principal and interest	Others
Hold to collect contractual cash flows	Amortized cost	FVTPL-measured at fair value
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value	
Hold to sell financial assets and others	FVTPL-measured at fair value	

As of December 31, 2017, the Company has loans and receivables amounting to ₩314,275 million, and available-for-sale financial assets amounting ₩24 million.

Based in the result of financial impact evaluation to date, the new classification is not expected to have a material impact on the accounting treatment of financial assets at a fair value through profit and loss and available for sale financial assets.

2. Significant Accounting Policies, Continued

14) New standards and interpretations not yet adopted, continued

A financial asset is measured at FVOCI under K-IFRS 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has ₩3 million of debt instruments classified as available-for-sale financial assets under K-IFRS 1039.

Under K-IFRS 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. The balance of investment in equity as classified available-for-sale financial assets as of December 31, 2017 is ₩21 million.

Classification and measurement of financial liabilities

In accordance with K-IFRS 1109, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income and such a comprehensive income is not reclassified ('recycled') from equity to profit and loss; Unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, the amount of change in the fair value of the financial liability shall be presented in profit or loss.

In case of current standard, K-IFRS 1039, the Company presents a gain or loss on a financial liability that is designated as at fair value through profit or loss as profit or loss. Upon adoption of the new standard, the Company may present a gain or loss on financial liability as other comprehensive income in particular case.

The Company believes that there is no significant impact on financial statements, since under K-IFRS 1109 the Company has no financial liability at fair value through profit or loss.

Impairment : financial assets and contract assets

The current impairment requirements under K-IFRS 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS 1109 replaces the incurred loss model in K-IFRS 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

2. Significant Accounting Policies, Continued

14) New standards and interpretations not yet adopted, continued

Under K-IFRS 1109, the Company should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS 1039.

Stages(*1)		Loss allowance
Stage 1	No significant increase in credit risk since initial recognition(*2)	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Objective evidence of credit risk impairment	

(*1) The loss allowance of trade receivables or contract assets that result from transactions that are within the scope of K-IFRS 1115, Revenue from Contracts with Customers, and that do not contain a significant financing component in accordance with K-IFRS 1115 should be measured at an amount equal to lifetime expected credit losses; or that contains a significant financing component in accordance with K-IFRS 1115 can be measured at an amount equal to lifetime expected credit losses. Also, the loss allowance of lease receivables can be measured at an amount equal to lifetime expected credit losses.

(*2) The Company may assume that the credit risk on financial assets has not increased significantly if the financial assets are determined to have low credit risk at the reporting date.

In accordance with K-IFRS 1109, the Company should recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for originated credit-impaired financial assets.

The balances of related accounts potentially impacted by the impairment model change as of December 31, 2017 are as follows: i) investment in debt as measured at amortized cost (loans and other receivables) ₩314,275 million; ii) and related loss allowance of ₩17 million.

The Company will measure the allowance accounts corresponding to credit losses based on the extent of credit risk after the initial recognition of final assets and the result of preliminary analysis of potential effect will be reflected in the financial statements of 2018 with adoption of K-IFRS 1109. The Company believes that there is no significant impact on financial statements.

2. Significant Accounting Policies, Continued

14) New standards and interpretations not yet adopted, continued

(3) K-IFRS 1115 'Revenue from Contracts with Customers'

K-IFRS 1115 'Revenue from Contracts with Customers' provides a unified five-step model for determining the timing, measurement and recognition of revenue. It replaces existing revenue recognition guidance, including K-IFRS 1018 'Revenue', K-IFRS 1011 'Construction Contracts', K-IFRS 2031 'Revenue- Barter transactions involving advertising services', K-IFRS 2113 'Customer Loyalty Programs', K-IFRS 2115 'Agreements for the construction of real estate', and K-IFRS 2118 'Transfers of assets from customers'.

The Company intends to apply the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as of January 1, 2018, the date of initial application and the Company also decided to apply the practical expedients as allowed by K-IFRS 1115 by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application. Accordingly, upon adoption of K-IFRS 1115, the Company will not restate the financial statements for comparative periods.

Existing K-IFRS standards and interpretations including K-IFRS 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

The Company has formed a separate task force team and prepared for the adoption of K-IFRS 1115, and evaluated necessary changes to internal management process with assistance from an external accounting firm. The above mentioned standard will impact not only on the accounting treatment but also on sales and business practice. The Company provides training sessions to all relevant employees regarding the new standards adoption and periodically reports the implementation plan and progress to management team.

The main items of standards that show an impact on the financial statements are as follows:

① Consideration payable to a customer
With respect to Lotte World Tower residential sales business, the Company provides a usage right to certain facilities to buyers and related expenses charged to the Company are recognized as selling and administrative expenses. Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer). An entity shall account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

The Company has provided a usage right to buyers of residence of certain facilities within Lotte World Tower and identified such arrangement to contain consideration payable to a customer. Under K-IFRS 1115, consideration for the usage right of certain facilities shall be recognized as reduction to sales.

At the initial application date (January 1, 2018), the Company expects that the transaction of providing usage right to certain facilities in relation to sale of residences provided to certain customers will not have a significant impact on the financial statements.

2. Significant Accounting Policies, Continued

14) New standards and interpretations not yet adopted, continued

(4) K-IFRS 1116 `Leases'

K-IFRS 1116 "Leases" will replace K-IFRS 1017 "Leases" and K-IFRS 2104 "Determining whether an Arrangement Contains a Lease". It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for a company which has adopted K-IFRS 1115. As a lessee, the Company shall apply this standard using one of the following two methods; (a) retrospectively to each prior reporting period presented in accordance with K-IFRS 1008 "Accounting Policies, Changes in Accounting Estimates and Errors" but using the practical expedients for completed contracts- i.e. completed contracts as of the beginning of the earliest prior period presented are not restated; or (b) retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application.

K-IFRS 1116 suggests a single accounting model that requires a lessee to recognize lease related asset and liability in the financial statements. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease of which has a term of 12 months or less at the commencement date and low value assets. Accounting treatment for lessor is similar to the existing standard which classifies lease into finance and operating lease.

Application of K-IFRS 1116 will change current operating lease expense which has been recognized in straight-line method into depreciation expense of right-of-use asset and interest expense of lease liability, and therefore, nature of expense recognized in relation to lease will change. However, it is expected that there will be no significant impact on finance lease.

2. Significant Accounting Policies, Continued

14) New standards and interpretations not yet adopted, continued

Lessees

A lessee should apply this standard to its leases either retrospectively to each prior reporting period presented applying K-IFRS 1008 "Accounting Policies, Changes in Accounting Estimates and Errors" or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has not yet initiated to prepare for the application of K-IFRS 1116 and the Company has not performed an assessment of the impact resulting from the application of K-IFRS 1116. The Company will complete the analysis of financial impacts arising from applying this standard in 2018.

Lessors

The Company expects that there will be no significant impact on finance lease.

3. Critical Accounting Estimates and Assumptions

The preparation of the financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(1) Information about assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- ✓ Note 19 – Employee benefits
- ✓ Note 21 – Income taxes
- ✓ Note 30 – Commitments and Contingencies

(2) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

3. Critical Accounting Estimates and Assumptions, Continued

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- ✓ Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability are categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

Note 5 - Fair value of financial instruments

4. Financial Risk Management

1) Financial risk factors

The Company's activities expose it to a variety of financial risks: 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.

Risk management is conducted by treasury department and the treasury department identifies, evaluates and avoids financial risks with the co-operation of various business departments. The committee provides a policy on the overall risk management as well as documented policies on the specific areas such as foreign exchange risk, interest risk, credit risk and investment of the excess liquidity.

(1) Market risk

① Currency risk management

The Company is exposed to currency risk on financial liabilities that are denominated in a currency other than the respective functional currencies of the Company. The objective of exchange risk management is to continue stable financial activities by minimizing uncertainty and profit and loss fluctuations.

Assets and liabilities denominated in foreign currencies as of December 31, 2017 and 2016 are as follows:

(In millions of JPY, millions of KRW)

	December 31, 2017		December 31, 2016	
	JPY	KRW Equivalent	JPY	KRW Equivalent
Long-term borrowings	10,000	₩ 94,911	10,000	₩ 103,681

4. Financial Risk Management, Continued

1) Financial risk factors, continued

Sensitivity analysis of income after taxes from changes of foreign currency JPY exchange rate as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)			
		December 31, 2017		**December 31, 2016**	
Description		10% Increase	10%Decrease	10% Increase	10% Decrease
JPY exchange rate	₩	(7,194)	7,194	(7,859)	7,859

(*) The sensitivity analysis above is related to the monetary assets and liabilities, denominated in a currency other than the Company's functional currency, as of December 31, 2017 and 2016.

② Interest risk management

The risk mainly arises from borrowings and financial deposits with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

At the end of reporting period, there are 3 types of floating rate conditional loans when other variables are consistent and the interest rate fluctuates by 10bp, the impact on the after-tax earnings and equity is stated as follows:

		Korean won (millions)			
		Effect on net income		**Effect on equity**	
Interest rate		**2017**	**2016**	**2017**	**2016**
10bp Increase	₩	(148)	(116)	(148)	(116)
10bp Decrease		148	116	148	116

(2) Credit Risk

Credit risk is managed at the company-wide level. Credit risk mostly incurs from deposits from banks and financial institutions. Credit risk from the financial risk is limited because the company makes business transactions with financial institutions with excellent credit ratings. For banks and financial institutions, they make transactions only when the credit from independent credit rating institutions is above certain level.

The maximum exposures to credit risk as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
Account		**December 31, 2017**	**December 31, 2016**
Cash and cash equivalents (*1)	₩	268,727	237,410
Trade receivables		10,395	7,721
Other receivables		18,500	14,261
Other financial assets (current)		4,216	4,273
Long-term trade receivables		431	-
Other financial assets (non-current) (*2)		12,009	306

(*1) Cash held by the Company are excluded as there is no exposure to credit risk.
(*2) Equity securities are excluded as there is no exposure to credit risk.

4. Financial Risk Management, Continued

1) Financial risk factors, continued

(3) Liquidity risk

Forecasts of cash flows are prepared by the Company's treasury department. The Company's treasury department maintains unused borrowing limit to certain level, constantly reviews projection of liquidity to satisfy demand from business funds and not to breach the borrowing limit or debt covenants. When projecting the liquidity, the Company considers the following factors: external regulations and legislation demands such as the Company's plan for financing, commitment, the Company's internal financial rate goals. The treasury department invests the surplus funds by selecting interest bearing checking account, time deposit and money market deposits that provide adequate maturity and sufficient liquidity in order to secure liquidity through the projection mentioned as above.

Aggregate maturities of financial liabilities, as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)		
		December 31, 2017		
Description		Less than 1 year	1 year or more	Total
Other payables	₩	203,856	-	203,856
Other financial liabilities (*)		17,669	165,378	183,047
Borrowings (*)		1,958,225	271,317	2,229,542
Total	₩	2,179,750	436,695	2,616,445

		Korean won (millions)		
		December 31, 2016		
Description		Less than 1 year	1 year or more	Total
Other payables	₩	132,710	-	132,710
Other financial liabilities (*)		23,762	35,010	58,772
Borrowings (*)		1,045,272	1,027,879	2,073,151
Total	₩	1,201,744	1,062,889	2,264,633

(*) The above schedule is prepared based on the undiscounted nominal amounts (including interest expense) of the cash flows of financial liabilities by maturity time band.

4. Financial Risk Management, Continued

2) Capital risk management

The Company's objectives of managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders by maintaining an optimal capital structure based on the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios as of December 31 2017 and 2016, are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Total borrowings (A)	₩	2,194,531	2,023,141
Less:			
Cash and cash equivalents (B)		(268,734)	(237,427)
Net debt (C=A+B)		1,925,797	1,785,714
Total equity (D)		4,988,499	4,500,962
Total capital (E=C+D)	₩	6,914,296	6,286,676
Gearing ratio (C/E)		27.85%	28.40%

5. Fair Value of Financial Instrument

There are no significant changes in the business and economic environment that affect the fair value of the Company's financial assets and financial liabilities during the year.

(1) Accounting classifications and fair value

The carrying amount and the fair value of financial instruments as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)			
		December 31, 2017		**December 31, 2016**	
		Book value	**Fair value**	**Book value**	**Fair value**
Financial Assets					
Cash and cash equivalents	₩	268,734	268,734	237,427	237,427
Trade receivables		10,395	10,395	7,721	7,721
Other receivables		18,500	18,500	14,261	14,261
Other financial assets (current)		4,216	4,216	4,273	4,273
Long-term trade receivables		431	431	-	-
Other financial assets (non-current) (*1)		12,009	12,009	306	306
Financial Liabilities					
Other payables		203,856	203,856	132,710	132,710
Other financial liabilities (current)		17,651	17,651	23,592	23,592
Other financial liabilities (non-current)		117,511	117,511	30,985	30,985
Borrowings (*2)		2,194,531	2,193,244	2,023,141	2,026,763

5. Fair Value of Financial Instrument, Continued

(*1) If the Company cannot reliably measure its fair value among equity instruments that are not quoted in an active market, they are measured at cost and excluded from fair value.

(*2) Fair value is measured by discounting the yield on the Company's credit rating (AA-).

(2) Financial assets measured at historical cost

The financial assets measured at historical cost as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Other financial assets (non-current)			
available-for-sale financial assets	₩	21	21

The above available-for-sale financial assets are measured at cost because their fair value cannot be reliability measured. The Company does not intend to dispose of these financial instruments in the short term and will measure fair value when fair value can be reliably measured.

(3) The fair value hierarchy
Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

The fair value measurements classified by fair value hierarchy as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)			
		December 31, 2017			
Description		Level 1	Level 2	Level 3	Total
Other financial assets (non-current)					
Available-for-sale financial assets (*)	₩	-	3	-	3

(*) Comprising of national housing bond.

		Korean won (millions)			
		December 31, 2016			
Description		Level 1	Level 2	Level 3	Total
Other financial assets (non-current)					
Available-for-sale financial assets (*)	₩	-	68	-	68

(*) Comprising of national housing bond.

6. Categories of Financial Assets and Liabilities

(1) Categories of Financial Assets and Liabilities as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)		
		December 31, 2017		
Description		Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost
Financial Assets				
Cash and cash equivalents (*1)	₩	268,727	-	-
Trade receivables		10,395	-	-
Other receivables		18,500	-	-
Other financial assets (current)		4,213	3	-
Long-term trade receivables		431	-	-
Other financial assets (non-current)		12,009	21	-
Financial Liabilities				
Other payables (*2)		-	-	203,856
Short-term borrowings		-	-	950,000
Current portion of long-term borrowings		-	-	988,161
Long-term borrowings		-	-	256,370
Other financial liabilities (current)		-	-	17,651
Other financial liabilities (non-current)		-	-	117,511

(*1) Cash held by the Company are excluded.
(*2) Including ₩294 million in other debt paid related to employee salaries.

		Korean won (millions)		
		December 31, 2016		
Description		Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost
Financial Assets				
Cash and cash equivalents (*1)	₩	237,410	-	-
Trade receivables		7,721	-	-
Other receivables		14,261	-	-
Other financial assets (current)		4,273	-	-
Other financial assets (non-current)		238	89	-
Financial Liabilities				
Other payables (*2)		-	-	132,710
Short-term borrowings		-	-	810,000
Current portion of long-term borrowings		-	-	229,986
Long-term borrowings		-	-	983,155
Other financial liabilities (current)		-	-	23,592
Other financial liabilities (non-current)		-	-	30,985

(*1) Cash held by the Company are excluded.
(*2) Including ₩126 million in other debt paid related to employee salaries.

6. Categories of Financial Assets and Liabilities, Continued

(2) Financial income (cost) by categories of financial assets and liabilities for the years ended December 31, 2017 and 2016 is as follows:

		Korean won (millions)	
		2017	**2016**
Loans and receivables			
Interest income	₩	4,008	2,000
Available-for-sale financial assets			
Gain on valuation of available-for-sale financial assets (other comprehensive income(loss))		(5)	1
Gain on disposal of available-for-sale financial assets		8	-
Financial liabilities measured at amortized cost			
Interest cost		(56,924)	(45,849)
Loss on foreign currency translation		8,770	(6,480)

7. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Cash on hand	₩	7	17
Bank savings		268,727	237,410
Total	₩	268,734	237,427

8. Trade Receivables and Other Receivables

(1) Trade and other receivables as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)			
		December 31, 2017		**December 31, 2016**	
		Current	**Non-current**	**Current**	**Non-current**
Trade receivables	₩	10,412	431	7,721	-
Bad debt allowance		(17)	-	-	-
Other receivables		16,013	-	13,036	-
Accrued income		2,487	-	1,225	-
Total	₩	28,895	431	21,982	-

8. Trade Receivables and Other Receivables, Continued

(2) The aging and impairment of current trade receivables and other receivables as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Receivables not past due	₩	28,781	21,467
Past due but not impaired		545	515
Impaired		17	-
Total	₩	29,343	21,982

(3) The aging analyses receivables past due but not impaired as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
- 3 months or less	₩	301	321
- 3 ~ 6 months		21	191
- 6 months ~ 1 year		223	3
Total	₩	545	515

(4) Movements in bad debts allowance on trade receivables for the years ended December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)	
		2017	**2016**
Balance as of January 1	₩	-	-
Impairment loss		17	-
Reversal of impairment loss		-	-
Balance as of December 31	₩	17	-

9 Other Financial Assets

Other financial assets as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Other financial assets (current)			
Short-term financial instruments (*1)	₩	4,200	4,200
Current portion of deposits		13	73
Available-for-sale financial assets		3	-
		4,216	4,273
Other financial assets (non-current)			
Long-term financial instruments (*2)		3	3
Available-for-sale financial assets		21	89
Deposits		12,006	235
		12,030	327
Total	₩	16,246	4,600

(*1) Short-term financial instruments are pledged to the lessee (see Note 30).
(*2) Long-term financial instruments are set as current account deposits (see Note 30).

10. Other Non-financial Assets

Other non-financial assets as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)			
		December 31, 2017		**December 31, 2016**	
		Current	**Non-current**	**Current**	**Non-current**
Advance payments	₩	3,215	-	288	-
Prepaid expenses		6,288	1,539	12,717	-
Prepaid value added tax		-	-	9,632	-
Total	₩	9,503	1,539	22,637	-

11. Inventories

Inventories as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Merchandise	₩	34	41
Unfinished buildings		-	1,012,890
Finished buildings (*)		1,135,534	-
Total	₩	1,135,568	1,012,931

(*) During 2017, the Company transferred ₩230,232 million of construction in process to inventory asset upon the completion of Lotte World Tower. In relation to facility sales of Lotte World Tower, ₩7,726 million of inventory asset was transferred to lands and ₩7,175 million to buildings and others.

12. Investments in Associates

(1) Investments is associates as of December 31, 2017 and 2016 are as follows:

				Korean won (millions)			
				December 31, 2017			
Description	**Location**	**End date of reporting period**		**Acquisition cost**	**Owner-ship (%)**	**Owned portion of net asset**	**Book value**
Lotte Chemical Corporation	Korea	12.31	₩	29,625	31.27	3,605,790	3,605,790

				Korean won (millions)			
				December 31, 2016			
Description	**Location**	**End date of reporting period**		**Acquisition cost**	**Owner-ship (%)**	**Owned portion of net asset**	**Book value**
Lotte Chemical Corporation	Korea	12.31	₩	29,625	31.81	2,991,614	2,991,614

(2) The changes in investments in associates for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Beginning balance	₩	2,991,614	2,352,990
Share of profit		701,660	666,166
Dividends received		(42,875)	(26,797)
Gain on disposal of investments in associates		11,632	-
Changes of equity of investee			
Change in capital surplus of the investee		64,073	(2,550)
Change in gain on valuation of investment capital using the equity method		(115,941)	29,089
Change in retained earnings using the equity method		(4,373)	(27,284)
Total	₩	3,605,790	2,991,614

12. Investments in Associates, Continued

(3) Summary of financial information of associates as of and for the years ended December 31, 2017 and 2016 is as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Assets	₩	19,550,971	15,866,834
Liabilities		7,296,204	6,466,017
Equity		12,254,767	9,400,817
Sales		15,874,511	13,223,541
Net income		2,284,577	1,837,185
Total comprehensive income		1,856,234	1,923,094

(4) Investments in associates which have market value as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Numbers of shares		10,718,818	10,718,818
Market value per share (in won)	₩	368,000	369,000
Market value		3,944,525	3,955,244
Book value		3,605,790	2,991,614

(5) The reconciliation from net assets of associates to the book value of the investments in associates as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Lotte Chemical Corporation			
Net assets (A)	₩	11,489,628	9,363,112
Ownership (B)		31.27%	31.81%
Owned portion of net asset (AxB)		3,592,807	2,978,406
Goodwill		12,983	13,208
Book value		3,605,790	2,991,614

13. Property, Plant and Equipment

(1) The changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)							
		2017							
		Land	Buildings	Structures	Machinery	Furniture and Fixtures	Tools and equipment	Construction-in-progress	Total
Balance as of January 1	₩	1,544,252	698,780	10,773	25,264	51,550	10,956	846,801	3,188,376
Transfer		7,726	982,026	9,039	7,947	68,472	7,224	(1,304,775)	(222,341)
Acquisitions		-	743	-	-	-	2,157	463,841	466,741
Disposals		-	-	-	-	-	(92)	-	(92)
Depreciation		-	(44,549)	(459)	(2,609)	(27,369)	(5,638)	-	(80,624)
Balance as of December 31		1,551,978	1,637,000	19,353	30,602	92,653	14,607	5,867	3,352,060
Acquisition cost		1,551,978	1,724,078	20,348	37,119	154,860	27,927	5,867	3,522,177
Accumulated depreciation		-	(87,078)	(995)	(6,517)	(62,207)	(13,320)	-	(170,117)

		Korean won (millions)							
		2016							
		Land	Buildings	Structures	Machinery	Furniture and Fixtures	Tools and equipment	Construction-in-progress	Total
Balance as of January 1	₩	1,973,038	626,802	8,086	21,912	53,439	10,455	1,129,939	3,823,671
Transfer		(428,786)	95,573	2,965	5,266	15,136	3,841	(707,944)	(1,013,949)
Acquisitions		-	-	-	-	-	126	424,806	424,932
Disposals		-	(3,500)	-	-	-	-	-	(3,500)
Depreciation		-	(20,095)	(278)	(1,914)	(17,025)	(3,466)	-	(42,778)
Balance as of December 31		1,544,252	698,780	10,773	25,264	51,550	10,956	846,801	3,188,376
Acquisition cost		1,544,252	741,309	11,310	29,171	86,387	18,786	846,801	3,278,016
Accumulated depreciation		-	(42,529)	(537)	(3,907)	(34,837)	(7,830)	-	(89,640)

In relation to the construction project of Lotte World Tower, the Company's expenditure during 2017 is ₩463,841 million (2016: ₩424,806 million). The capitalized borrowing cost for tangible assets that are qualifying assets is ₩189 million (2016: ₩1,577 million), and capitalization rate of 2.60% (2016: 2.89%) was used to calculate the borrowing cost eligible for capitalization. The depreciation expense included in cost of goods sold and selling and administrative expenses is ₩78,442 million (2016: ₩41,787 million) and ₩2,182 million (2016: ₩993 million) respectively. As of the end of the reporting period, Seoul Metropolitan Rapid Transit Corporation, Seoul Metro Corporation, Seoul Metropolitan and Song-pa District have separate surface rights on some of the lands owned by the Company for the use of nearby subway facilities and shopping mall entrance and exit, and KEPCO has leasehold right for a portion of the land for its electrical substation maintenance (see Note 30).

13. Property, Plant and Equipment, Continued

(2) Operating leases

The Company jointly owns Lotte World Tower • Mall with Hotel Lotte Co., Ltd. and Lotte shopping Co., Ltd. according to the shares owned by each company. During 2017, the Company entered into amendments to lease arrangements for the areasthat the Company uses but owned by Hotel Lotte Co., Ltd. and Lotte shopping Co., Ltd. for 20 years, the areas that Hotel Lotte Co., Ltd. and Lotte shopping Co., Ltd. use but owned by the Company for 20 years.

1) Leasee
The non-cancellable lease payments as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Less than 1 year	₩	35,542	13,790
1 ~ 5 years		141,486	54,690
More than 5 years		497,345	173,820
Total	₩	674,373	242,300

The minimum lease payment of the total lease payment recognized for the years ended December 31, 2017 and 2016 is ₩32,727 million and ₩14,069 million, respectively.

2) Leasor
The Company expects to receive the following amounts for minimum lease payments related to operating leases as of December 31, 2017 and 2016.

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Less than 1 year	₩	96,332	61,194
1 ~ 5 years		365,421	233,692
More than 5 years		970,644	719,151
Total	₩	1,432,397	1,014,037

For the years ended December 31, 2017 and 2016, the Company recognized revenue of ₩81,658 million and ₩59,781 million under the operating leases contract, respectively.

14. Intangible Assets

The changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)				
		2017				
		Membership	Property right	Software	Others	Total
Balance as of January 1	₩	743	4	1,055	4,085	5,887
Acquisitions		194	-	509	-	703
Transfer		-	23	-	7,010	7,033
Amortization		-	(11)	(362)	(3,134)	(3,507)
Impairment		(562)	-	-	-	(562)
Balance as of December 31		375	16	1,202	7,961	9,554
Acquisition cost		936	37	2,091	13,856	16,920
Accumulated depreciation		-	(20)	(889)	(5,895)	(6,804)
Accumulated impairment		(562)	-	-	-	(562)

		Korean won (millions)				
		2016				
		Membership	Property right	Software	Others	Total
Balance as of January 1	₩	743	7	906	4,326	5,982
Acquisitions		-	-	450	47	497
Transfer		-	-	-	1,058	1,058
Amortization		-	(3)	(301)	(1,346)	(1,650)
Balance as of December 31		743	4	1,055	4,085	5,887
Acquisition cost		743	13	1,582	6,846	9,184
Accumulated depreciation		-	(9)	(527)	(2,761)	(3,297)

The Company recognized amortization expense of ₩3,507 million and ₩1,650 million as operating expense and cost of goods sold for the years ended December 31, 2017, respectively.

15. Other payables

Other payables as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Accounts payable-other	₩	180,601	91,767
Accrued expense		23,255	40,943
Total	₩	203,856	132,710

16. Other Financial Liabilities

Other financial liabilities as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Other financial liabilities (current)			
Deposits received	₩	17,669	23,762
Present value discount		(18)	(170)
		17,651	23,592
Other financial liabilities (non-current)			
Deposits received		165,378	35,010
Present value discount		(47,867)	(4,025)
		117,511	30,985
Total	₩	135,162	54,577

17. Other Non-financial Liabilities

Other non-financial liabilities as of December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Other non-financial liabilities (current)			
Advance received	₩	17,823	48
Withholdings		162	212
Unearned income		17	163
Value-added tax withholding		3,946	-
		21,948	423
Other non-financial liabilities (non-current)			
Long-term unearned income		47,220	3,892
		47,220	3,892
Total	₩	69,168	4,315

18. Borrowings

(1) Short-term borrowings as of December 31, 2017 and 2016 are as followings:

					Korean won (millions)	
Description	Borrower	Interest rate (%)	Maturity		**December 31, 2017**	**December 31, 2016**
Borrowings	KB SECURITIES CO.,LTD.	1.81	2018-06-13	₩	200,000	-
	DB Financial Investment Co.,LTD.	2.33	2018-12-14		150,000	-
	Mizuho Bank, Ltd.	1.85	2018-05-16		100,000	-
	Woori Bank	2.82	2018-02-01		200,000	200,000
	Woori Bank	2.82	2018-04-27		100,000	60,000
	KOOKMIN BANK	2.67	2018-02-22		100,000	100,000
	NongHyup Bank	2.99	2018-03-20		50,000	-
	KEB Hana Bank	Finance Debentures 6M+1.375	2018-03-30		50,000	-
	Korea Investment & Securities Co., Ltd.	2.30	2017-06-08		-	100,000
	Korea Investment & Securities Co., Ltd.	2.30	2017-06-15		-	100,000
	Korea Investment & Securities Co., Ltd.	2.28	2017-06-22		-	50,000
	BOOKOOK SECURITIES CO., LTD.	2.28	2017-08-08		-	50,000
	Korea Investment & Securities Co., Ltd.	2.48	2017-12-18		-	150,000
Total				₩	950,000	810,000

18. Borrowings, Continued

(2) Long-term borrowings and Debentures as of December 31, 2017 and 2016 are as followings:

					Korean won (millions)	
Description	Borrower	Interest rate (%)	Maturity		**December 31, 2017**	**December 31, 2016**
Borrowings	Lotte Co., Ltd.	TIBOR 3M+1.329	2018-08-31	₩	94,911	103,681
	Sumitomo Mitsui Banking Corporation. (SMBC)	2.51	2018-12-20		30,000	40,000
		2.42	2018-12-20		30,000	40,000
		2.39	2018-12-20		30,000	40,000
		2.44	2018-12-20		30,000	40,000
		2.40	2018-12-20		30,000	40,000
	Mizuho Bank, Ltd.	2.70	2017-05-16		-	100,000
	Shinhan Bank	2.67	2018-06-20		200,000	200,000
	China Construction Bank	2.64	2018-10-20		30,000	30,000
	Bank of Communications	CD 3M+0.85	2018-11-20		50,000	50,000
	Industrial and Commercial Bank of China	2.30	2018-11-21		100,000	100,000
	KOOKMIN BANK	2.64	2019-02-20		70,000	-
		2.97	2019-10-20		50,000	-
	S solution 3th Co.,Ltd	2.65	2020-08-31		149,732	-
	Subtotal				894,643	783,681
	Less: Current portion of borrowings, net of discount				(688,244)	(150,000)
	Long-term borrowings				206,399	633,681
Debentures	4th Unguaranteed debentures	3.07	2018-03-21		100,000	100,000
	6th Unguaranteed debentures	3.14	2017-06-30		-	80,000
	7th Unguaranteed debentures	2.65	2018-10-29		100,000	100,000
	8th Unguaranteed debentures	2.85	2019-10-29		50,000	50,000
	9th Unguaranteed debentures	2.05	2018-01-30		100,000	100,000
	Subtotal				350,000	430,000
	Less: Discount on debentures				(113)	(540)
	Less: Current portion of debentures, net of discount				(299,916)	(79,986)
	Long-term debentures				49,971	349,474
Total				₩	256,370	983,155

19. Defined benefit liability

(1) Details of defined benefit liabilities as of December 31, 2017 and 2016 are as followings:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Present value of defined benefit obligations	₩	3,905	6,313
Fair value of plan assets		(3,458)	(6,164)
Total	₩	447	149

(2) Changes in employee benefits for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Beginning of the year	₩	6,313	5,573
Current service costs		1,041	991
Interest costs		137	186
Affiliated company Relocation/Moving Expense		180	(88)
Remeasurements:			
- Loss (gain) from change in demographic assumptions		-	-
- Loss (gain) from change in financial assumptions		(89)	(60)
- Loss (gain) experience adjustments		1,701	(123)
Payments		(5,352)	(166)
Others		(26)	-
End of the year	₩	3,905	6,313

(3) During 2017 and 2016, changes on plan assets of an employee benefit plan are as follows:

		Korean won (millions)	
		2017	**2016**
Beginning of the year	₩	6,164	6,296
Return on plan assets		104	179
Affiliated company Relocation/Moving Expense		180	(88)
Actuarial loss		(48)	(57)
Employer contribution		2,436	-
Payments		(5,352)	(166)
Others		(26)	-
End of the year	₩	3,458	6,164

19. Defined benefit liability, Continued

(4) The components of plan assets as of December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)			
		December 31, 2017		December 31, 2016	
		Amount	Portion	Amount	Portion
Accounts	₩	2,151	62%	1,399	23%
Beneficiary certificate		596	17%	1,001	16%
Finance debentures		711	21%	3,682	60%
Other securities		-	-	82	1%
Total	₩	3,458	100%	6,164	100%

(5) The principal actuarial assumptions used as of December 31, 2017 and 2016 are summarized as follows:

	December 31, 2017	December 31, 2016
Discount rate	3.34%	2.95%
Expected rate of increase in salaries	2.86%	2.96%

(6) A quantitative sensitivity analysis for significant assumptions as at December 31, 2017 is follows:

		Korean won (millions)	
		Increase	Decrease
Discount rate (1% movement)	₩	(165)	193
Expected rate of increase in salaries (1% movement)		192	(168)

(*1) The decline in the yield of high-quality corporate bond, which is used as the discount rate, can offset the effect of determinable salary liabilities by partially increasing the value of debt securities, but the increase in determinable salary liabilities has the most significant influence.

(*2) The assumptions used and in sensitivity analysis are the same as the previous period when other assumptions are consistent, but in practice several assumptions are interrelated. The sensitivity of determinable salary liabilities due to changes in primary actuarial assumption is measured using the same estimated unit approach that was utilized when calculating the determinable salary liabilities stated in financial statement.

(7) Weight average maturity of defined benefit obligation as of December 31, 2017 is 14.05 years and information about the maturity profile of the defined benefit obligation as of December 31, 2017 is as follows:

Korean won (millions)				
1 year or less	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
214	241	871	9,637	10,963

20. Other employee benefits

Changes in the present value of the other long-term employee benefits for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	2016
Balance at January 1	₩	188	150
Current service cost		26	22
Interest cost on benefit obligation		4	3
Benefits paid		(40)	(28)
Re-measurement loss		39	41
Balance at December 31	₩	217	188

21. Income Taxes

(1) The major components of income tax expense for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	2016
Current income tax:			
Current income tax charge	₩	-	958
Adjustments in respect of current income tax of previous year		(958)	-
Income tax charged directly to equity		440	3,502
Deferred tax:			
Origination and reversal of temporary differences		67,117	66,475
Income tax expense	₩	66,599	70,935

(2) The relationship between tax expense and the accounting profit for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	2016
Profit for the year before tax	₩	611,603	616,583
Income tax expense using the statutory income tax rate		147,546	148,751
Adjustments:			
Tax effects on non-taxable income		(34,296)	(3,241)
Tax effects on non-deductible expense		19,531	2,474
Adjustments for prior periods		(958)	-
Tax credit		-	(25)
Not recognized deferred tax		(65,686)	(77,363)
Others (tax rate differences)		462	339
Income tax expense	₩	66,599	70,935

21. Income Taxes, Continued

(3) During 2017 and 2016, the details of income tax expense recognized directly to equity are as follows:

		Korean won (millions)					
		2017			2016		
		Before tax	Tax credit (charge)	After tax	Before tax	Tax credit (charge)	After tax
Change in fair value of available-for-sale financial assets	₩	(7)	2	(5)	1	-	1
Defined benefit plan actuarial loss (gain)		(1,660)	402	(1,258)	125	(30)	95
Gain on valuation of investment capital using the equity method		(115,941)	(514)	(116,455)	29,089	232	29,321
Change in retained earnings using the equity method		(4,373)	550	(3,823)	(27,284)	3,301	(23,983)

(4) Deferred tax assets and liabilities are measured using the tax rate 24.2% to be applied for this year(24.2% : Previous year).

(5) Deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	December 31, 2016
Deferred tax assets			
Deferred tax asset to be recovered after more than 12 months	₩	54,886	25,022
Deferred tax asset to be recovered within 12 months		4,365	12,185
Subtotal		59,251	37,207
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months		(886,970)	(799,416)
Deferred tax liability to be recovered within 12 months		(9,357)	(7,749)
Subtotal		(896,327)	(807,165)
Deferred tax assets (liabilities), net	₩	(837,076)	(769,958)

21. Income Taxes, Continued

(6) Changes in the deferred tax liabilities for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Balance at January 1	₩	769,959	703,484
Deferred tax effects on net income		67,557	69,977
Tax effects on equity		(550)	(3,301)
Tax effects on other comprehensive income(losses)		110	(201)
Balance at December 31	₩	837,076	769,959

(7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)				
		2017				
		Balance at January 1	Profit or loss	Equity	Other comprehensive income	Balance at December 31
Deferred tax liabilities						
Land (asset revaluation)	₩	(460,316)	8,571	-	-	(451,745)
Equity Income(losses) on Investments		(333,011)	(82,979)	-	-	(415,990)
Retained earnings using the Equity method		(4,325)	-	550	-	(3,775)
Gain (loss) on foreign currency translation		(7,163)	(2,122)	-	-	(9,285)
Accrued revenues		(42)	(30)	-	-	(72)
Others		(2,309)	(13,151)	-	-	(15,460)
Subtotal		(807,166)	(89,711)	550	-	(896,327)
Deferred tax assets						
Gain on valuation of investment capital using the Equity Method		2,545	-	-	(511)	2,034
Retirement benefit obligations		615	(339)	-	399	675
Interest incurred during construction		11,352	(11,352)	-	-	-
Others		22,695	33,845	-	2	56,542
Subtotal		37,207	22,154	-	(110)	59,251
Total	₩	(769,959)	(67,557)	550	(110)	(837,076)

21. Income Taxes, Continued

		Korean won (millions)				
		2016				
		Balance at January 1	Profit or loss	Equity	Other comprehensive income	Balance at December 31
Deferred tax liabilities						
Land (asset revaluation)	₩	(460,710)	394	-	-	(460,316)
Equity Income(losses) on Investments		(255,647)	(77,364)	-	-	(333,011)
Retained earnings using the Equity method		(7,626)	-	3,301	-	(4,325)
Gain (loss) on foreign currency translation		(8,731)	1,568	-	-	(7,163)
Accrued revenues		(262)	220	-	-	(42)
Others		(2,113)	(196)	-	-	(2,309)
Subtotal		(735,089)	(75,378)	3,301	-	(807,166)
Deferred tax assets						
Gain on valuation of investment capital using the Equity Method		2,314	-	-	231	2,545
Retirement benefit obligations		436	209	-	(30)	615
Interest incurred during construction		15,196	(3,844)	-	-	11,352
Others		13,659	9,036	-	-	22,695
Subtotal		31,605	5,401	-	201	37,207
Total	₩	(703,484)	(69,977)	3,301	201	(769,959)

(8) As of December 31, 2017 and 2016, the amounts of total deductible temporary differences related to investments in associates for which deferred tax assets(liabilities) were not recognized are as follows:

		Korean won (millions)	
		December 31, 2017	December 31, 2016
Investments in associates	₩	(271,430)	(202,498)

22. Capital Stock and Capital Surplus

(1) Capital Stock

At the end of 2017, the total number of shares the Company is authorized to issue is 190,000,000 shares(₩ 5,000 per share). The number of outstanding shares is 59,448,880 shares.

		Korean won (millions)	
		2017	2016
Balance at January 1	₩	297,244	297,244
Increase (Decrease)		-	-
Balance at December 31	₩	297,244	297,244

(2) Capital Surplus

Capital surplus as of December 31, 2017 and 2016 consists of the following:

		Korean won (millions)	
		December 31, 2017	December 31, 2016
Gain on business combination	₩	7,822	7,822
Capital surplus on equity method		109,221	45,147
Total	₩	117,043	52,969

23. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income of the Company as of December 31, 2017 and 2016, are as follows:

		Korean won (millions)			
		2017			
		Balance at January 1	Increase (Decrease)	Reclassified to net income	Balance at December 31
Change in equity of equity method investments	₩	28,271	(116,455)	-	(88,184)
Net change in unrealized fair value of available for-sale financial assets		5	1	(5)	1
Total	₩	28,276	(116,454)	(5)	(88,183)

		Korean won (millions)			
		2016			
		Balance at January 1	Increase (Decrease)	Reclassified to net income	Balance at December 31
Change in equity of equity method investments	₩	(1,049)	29,320	-	28,271
Net change in unrealized fair value of available for-sale financial assets		4	1	-	5
Total	₩	(1,045)	29,321	-	28,276

24. Retained Earnings

(1) Details of retained earnings as at December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Legal reserve (*1)	₩	1,000	1,000
Business rationalization reserve (*2)		1,800	1,800
Voluntary reserve		3,251,000	3,251,000
Unappropriated retained earnings		1,408,595	868,672
	₩	4,662,395	4,122,472

(*1) The Korean Commercial Code requires the Company to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stock in connection with a free issue of shares.

(*2) The Company's business rationalization reserves are voluntary reserves, and are retained earnings that can be distributed as dividends by the resolution of the shareholder general meeting.

(2) Details of appropriation of retained earnings for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
I. Unappropriated retained earnings:	₩	1,408,595	868,673
Balance at beginning of the year		868,673	346,912
Actuarial gains (losses) on defined benefit pension plans		(1,258)	95
Change in retained earnings of Investments in associates		(3,823)	(23,983)
Profit for the year		545,004	545,649
II. Appropriation of retained earnings:		-	-
III. Unappropriated retained earnings to be carried over to subsequent year	₩	1,408,595	868,673

25. Selling, General and Administrative Expenses

Details of selling, general and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Salaries	₩	4,790	4,989
Retirement and termination benefits		612	467
Employee welfare		1,066	944
Travel		71	63
Communications		87	86
Taxes and dues		11,174	9,121
Depreciation		2,182	993
Amortization of intangible assets		429	336
Maintenance fee		163	144
Insurance premium		1,710	22
Entertainment expenses		136	288
Advertising		17,114	7,578
Bad debt expenses		17	-
Transportation		4	5
Commissions and fees		34,675	8,579
Maintenance fee for car		200	137
Supplies and stationery		225	316
Education and training		192	137
Rent		505	466
Decoration		2,480	1,094
Utilities		133	-
Printing		21	14
Others		1	2
Total	₩	77,987	35,781

26. Nature of Expenses

Details of nature of expenses for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Changes in inventories	₩	92,657	13
Employee benefits expense		10,718	7,997
Commissions and fees		67,285	28,858
Depreciation and amortization		84,131	44,429
Taxes and dues		31,038	23,450
Advertising		17,114	7,578
Others		63,172	34,614
Total	₩	366,115	146,939

27. Other income and expenses

(1) Details of other income for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Miscellaneous income	₩	191	733
Total	₩	191	733

(2) Details of other expenses for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Loss on disposal of property and equipment	₩	83	-
Impairment loss on intangible assets		562	-
Donations		8,531	9,783
Miscellaneous losses		1,750	5
Total	₩	10,926	9,788

28. Finance income and Finance Costs

(1) Details of finance income for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	2016
Interest income	₩	4,008	2,000
Gain on foreign currency translation		8,770	-
Gain on disposal of available-for-sale financial assets		8	-
Gain on disposal of investments in associates		11,632	-
Total	₩	24,418	2,000

(2) Details of finance costs for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	2016
Interest expense	₩	56,924	45,849
Loss on foreign currency translation		-	6,480
Total	₩	56,924	52,329

29. Earnings per Share

(1) Profit per share is measured using the current net income of the company's common stock or potentially dilutive common stock. The Company's output for current net income per share is as follows.

(2) Basic earnings per share for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (except per share amount)	
		2017	2016
Profit attributable to common stock holders (A)	₩	545,004,273,714	545,649,054,721
Weighted average number of common shares outstanding (B)		59,448,880	59,448,880
Basic earnings per share (in won) (A/B)		9,168	9,178

(3) The Company has no dilutive potential ordinary shares for the years ended December 31, 2017 and 2016. So there are no difference between basic and diluted earnings per share.

30. Contingent Liabilities and Financial Commitments

(1) As of the end of 2017, the Company received ₩2,340 million (2016: ₩2,319 million) in payment guarantee from Seoul Guarantee Insurance Company in relation to performance guarantee and others.

(2) As at December 31, 2017, the Company has the following credit facility commitments with financial institutions:

		Korean won (millions)	
Agreements		Credit line	Amount used under credit facility
General loan	₩	1,400,000	1,400,000
Buyer's credit		100,000	16,111

(3) As of December 31, 2017, the Company is the defendant in various lawsuits with damage claims totaling ₩559 million and the Company is the plaintiff in various lawsuits claiming damages totaling ₩13,844 million. The management believes that the ultimate resolutions of other legal actions will not have a material effect on the financial position or results of operations of the Company.

(4) As of December 31, 2017, the Company provides assets (Lotte Chemical Corporation shares of 70,356 shares) pledged as collateral on behalf of Seoul city and Seoul metro corporation.

(5) As of the end of 2017, short-term financial instruments of ₩4,200 million (2016: ₩4,200 million) are pledged to the lessee, and long-term financial instruments of ₩3 million (2016: ₩3 million) are set as current account deposits (see Note 9).

(6) Commitment balance for acquisition of tangible assets is as follows.

		Korean won (millions)	
		December 31, 2017	**December 31, 2016**
Lotte world tower	₩	-	136,691

(7) As of the end of the reporting period, Seoul Metropolitan Rapid Transit Corporation, Seoul Metro Corporation, Seoul Metropolitan and Song-pa District have separate surface rights on some of the lands owned by the Company for the use of nearby subway facilities and shopping mall entrance and exit, and KEPCO has leasehold right for a portion of the land for its electrical substation maintenance (see Note 13).

(8) As of the end of 2017, the Company has received four blank notes (face value: ₩1,440 million) and eight current account checks (face value: ₩184,264 million) as construction performance guarantee and others from Lotte Engineering & Construction Company.

31. Non-cash transactions

(1) The significant transactions not affecting cash inflows for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Reclassification from payment in advance to tangible and intangible assets	₩	-	10,307
Non-cash acquisition of property and intangible assets		59,859	9,632
Reclassification from non-current portion of bonds and borrowings to current portion		987,868	190,000
Reclassification from construction in progress to inventories		230,232	1,012,890
Reclassification from inventories to tangible assets		14,901	-
Reclassification from construction in progress to tangible and intangible assets		1,304,775	123,840

(2) Change in liability and equity arising from financing activities in 2017 is as follows:

		Korean won (millions)					
		2017					
				Non-cash transactions			
		Balance at January 1	Cash flows from financing activities	Reclassification of current portion	Change in exchange rate	Amortized amount of discount on bonds	Balance at December 31
Current portion of bonds payable	₩	80,000	(80,000)	300,000	-	-	300,000
Current portion of discount in bonds payable		(14)	-	(376)	-	306	(84)
Short term borrowing		810,000	40,000	100,000	-	-	950,000
Current portion of long-term borrowings		150,000	(50,000)	588,244	-	-	688,244
Bonds		350,000	-	(300,000)	-	-	50,000
Discount on bonds		(526)	-	376	-	121	(29)
Long term borrowing		633,681	270,000	(688,244)	(8,770)	-	206,667
Current value discount		-	(300)	-	-	32	(268)

32. Related Party Transactions

(1) As of December 31, 2017, the Company's parent company is Lotte Holdings Co., Ltd. and details of related parties with the Company as of December 31, 2017 and 2016 are as follows:

	Related Company
Significant influence	Hotel Lotte Co., Ltd.
Affiliate Company	Lotte Chemical Corporation
Others	Lotte Chemical Trading (Shanghai) Corp.
	Lotte Chemical Engineering Plastics (Jiaxing) Co., Ltd.
	Lotte Chemical (Jiaxing) Corp.
	Lotte Chemical Alabama Corp.
	Lotte Chemical Engineering Plastics Co., Ltd.
	Lotte Chemical Engineering Plastics (Shenyang) Co., Ltd.
	SAMBARK LFT CO.,LTD
	KP CHEMTECH
	Lotte Chemical Pakistan Limited
	Lotte Chemical Titan Holding Sdn. Bhd.
	DACC Aerospace Co.,LTD
	Lotte Chemical UK Limited
	Lotte Chemical Poland Sp. zo.o
	Lotte Chemical USA Corporation
	Lotte Advanced Materials Co., Ltd and subsidiaries
	Affiliate of Lotte Group (*1)

(*1) Lotte Group represents a group of entities as defined and restricted by the Monopoly Regulation and Fair Trade Act in Korea.

(2) Significant transactions which occurred in the normal course of business with related companies for the years ended December 31, 2017 and 2016 are summarized as follows:

		Korean won (millions)			
		2017			
Related Company		Sales	Other revenue	Purchases of property, plant, and equipment	Other expenses
Significant influence:					
Hotel Lotte Co., Ltd.	₩	27,743	14,421	15,837	16,518
Others:					
Lotte Shopping Co., Ltd.		44,339	9,137	23,666	20,183
Lotte Engineering & Construction Co., Ltd.		-	171	248,712	15,529
Lotte Foundation For Arts		11,019	75	-	5,009
Lotte Chemical Corporation		6,548	-	-	-
Daehong Communications INC.		200	63	374	16,431
Lotte Card Co.,Ltd.		30	-	-	1,386
Others		10,333	317	2,426	16,844
Total	₩	100,212	24,184	291,015	91,900

32. Related Party Transactions, Continued

Related Company		Korean won (millions) 2016 Sales	Other revenue	Purchases of property, plant, and equipment	Other expenses
Significant influence:					
Hotel Lotte Co., Ltd.	₩	13,896	8,013	13,227	4,901
Others:					
Lotte Shopping Co., Ltd.		42,157	10,429	19,866	9,083
Lotte Engineering & Construction Co., Ltd. (*)		4	301	294,145	59,771
Lotte Foundation For Arts		9,560	343	-	57
Lotte Asset Development Co.,Ltd		3	-	896	4,663
Lotte Data Communication Company		-	-	993	3,582
Daehong Communications INC.		303	19	2,108	6,831
Others		7,082	161	111	4,415
Total	₩	73,005	19,266	331,346	93,303

(*) The Company has Lotte World Tower construction contract with Lotte Engineering & Construction Company.

(3) Account balances with related companies as of December 31, 2017 and 2016 are summarized as follows:

Related company		Korean won (millions) December 31, 2017 Trade and other receivables	Borrowings (*)	Other payables
Significant influence:				
Hotel Lotte Co., Ltd.	₩	11,384	-	101,902
Others:				
Lotte Engineering & Construction Co., Ltd.		-	-	135,557
Lotte Co., Ltd.		-	94,911	-
Lotte Shopping Co., Ltd.		5,656	-	1,955
Lotte Card Co.,Ltd.		732	-	16,307
Daehong Communications INC.		51	-	1,894
Lotte Foundation For Arts		1,030	-	-
Lotte Chemical Corporation		2	-	7,603
Others		234	-	15,397
Total	₩	19,089	94,911	280,615

(*) Fluctuations in borrowings from parent company is due to exchange rate fluctuations.

32. Related Party Transactions, Continued

Related company		Advance payments	Non-trade receivables	Borrowings (*)	Non-trade payables
		Korean won (millions)			
		December 31, 2016			
Significant influence:					
Hotel Lotte Co., Ltd.	₩	204	2,341	-	603
Others:					
Lotte Engineering & Construction Co., Ltd.		-	25	-	32,033
Lotte Co., Ltd.		-	-	103,681	-
Lotte Shopping Co., Ltd.		-	6,585	-	804
Lotte Card Co.,Ltd.		-	339	-	27,941
Daehong Communications INC.		-	223	-	1,006
Lotte GRS Co., Ltd.		-	187	-	2,466
FRL Korea Co., Ltd.		-	-	-	3,927
Others		-	4,758	-	1,837
Total	₩	204	14,458	103,681	70,617

(*) Fluctuations in borrowings from parent company is due to exchange rate fluctuations.

(4) Financial transaction with related companies as of December 31, 2017 and 2016 are summarized as follows:

Related company		Dividend	Interest expense
		Korean won (millions)	
		2017	
Others:			
Lotte Co., Ltd.	₩	-	1,254
Affiliated company:			
Lotte Chemical Corporation		42,875	-
Total	₩	42,875	1,254

Related company		Dividend	Interest expense
		Korean won (millions)	
		2016	
Others:			
Lotte Co., Ltd.	₩	-	1,506
Affiliated company:			
Lotte Chemical Corporation		26,797	-
Total	₩	26,797	1,506

32. Related Party Transactions, Continued

(5) As of the end of 2017, the Company has received four blank notes (face value: ₩1,440 million) and eight current account checks (face value: ₩184,264 million) as construction performance guarantee and others from Lotte Engineering & Construction Company.

(6) Key management personnel compensation for the years ended December 31, 2017 and 2016 are as follows:

		Korean won (millions)	
		2017	**2016**
Short-term benefits	₩	2,805	3,074
Retirement benefits		495	473
Other long-term benefits		10	3
Total	₩	3,310	3,550

33. Subsequent Events

On February 22, 2018, the Board of Directors decided to acquire common stock and preferred stock of Lotte Incheon Development Co., Ltd. and to enter into a supplementary funding agreement. On March 8, 2018, the Company completed the acquisition of common stock and preferred stock of Lotte Incheon Development Co., Ltd. and entered into agreement with Lotte Holding Company, Hotel Lotte and Lotte Engineering and Construction to settle the difference between fair value and acquisition cost of Lotte Incheon Development's common stock and preferred stock. In addition, the Company signed an supplementary funding agreement for asset backed loans of Lotte Incheon Development Company held by L. Incheon 1st co., Ltd. and L. Incheon 2nd co., Ltd..

Report on Review of Interim Consolidated Financial Statements

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholder of Kookmin Bank

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of Kookmin Bank and its subsidiaries (collectively the "Group"). These financial statements consist of the interim consolidated statement of financial position of the Group as at March 31, 2018 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to issue a report on these interim consolidated financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as at December 31, 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 12, 2018. The consolidated statement of financial position as at December 31, 2017, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2017.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea

May 14, 2018

This report is effective as of May 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Kookmin Bank and Subsidiaries
Interim Consolidated Statements of Financial Position
March 31, 2018 (Unaudited) and December 31, 2017

(In millions of Korean won)	Notes	March 31, 2018[1] (Unaudited)	December 31, 2017
Assets			
Cash and due from financial institutions	4,6,7,36	18,319,780	15,646,318
Financial assets at fair value through profit or loss (Under Korean IFRS 1039)	4,6,12	-	8,408,730
Financial assets at fair value through profit or loss	4,6,12	14,628,169	-
Derivative financial assets	4,6,9	2,320,746	2,607,659
Loans at amortized cost	4,6,8,10,11	256,879,537	251,710,605
Financial investments	4,6,8,12	38,081,363	40,815,674
Investments in associates	13	344,998	345,892
Property and equipment	14	2,994,809	3,015,594
Investment property	14	336,768	337,500
Intangible assets	15	216,856	217,608
Current income tax assets	32	4,047	3,209
Deferred income tax assets	16,32	2,169	2,050
Assets held for sale	18	26,342	155,506
Other assets	4,6,17	7,485,608	6,499,582
Total assets		341,641,192	329,765,927
Liabilities			
Financial liabilities at fair value through profit or loss (Under Korean IFRS 1039)	4,6	-	74,191
Financial liabilities at fair value through profit or loss	4,6	78,952	-
Derivative financial liabilities	4,6,9	2,393,351	2,608,820
Deposits	4,6,19	259,076,872	252,478,931
Debts	4,6,20	17,554,718	15,810,753
Debentures	4,6,21	20,306,338	19,183,798
Provisions	22	342,576	358,192
Net defined benefit liabilities	23	46,185	8,568
Current income tax liabilities	32	2,903	3,543
Deferred income tax liabilities	16,32	186,889	172,131
Other liabilities	4,6,24,30	16,429,129	13,743,566
Total liabilities		316,417,913	304,442,493
Equity			
Capital stock	25	2,021,896	2,021,896
Capital surplus	25	5,219,786	5,219,693
Accumulated other comprehensive income	25, 34	252,828	678,094
Retained earnings	25, 33	17,728,769	17,403,751
(Provision of regulatory reserve for credit losses			
March 31, 2018 : ₩2,150,772 million			
December 31, 2017 : ₩2,001,063 million)			
(Amounts estimated to be appropriated (reversed)			
March 31, 2018 : ₩(3,382) million			
December 31, 2017 : ₩149,709 million)			
Equity attributable to the shareholder of the Parent Company		25,223,279	25,323,434
Non-controlling interest equity		-	-
Total equity		25,223,279	25,323,434
Total liabilities and equity		341,641,192	329,765,927

[1] The interim consolidated statement of financial position as at March 31, 2018 is prepared applying Korean IFRS 1109, and the comparative consolidated statement of financial position as at December 31, 2017 has not been restated retrospectively as permitted by the transitional provisions of Korean IFRS 1109.

The accompanying notes are an integral part of these interim consolidated financial statements.

Kookmin Bank and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month Periods Ended March 31, 2018 and 2017

(In millions of Korean won)	Notes	Three-Month Period Ended March 31 2018[1] (Unaudited)	2017 (Unaudited)
Interest income		2,309,376	2,011,327
Interest income from financial instruments at fair value through other comprehensive income and amortized cost		2,259,266	-
Interest income from financial instruments at fair value through profit or loss		50,110	-
Interest income from loans and receivables		-	1,972,617
Interest income from financial instruments at fair value through profit or loss (Under Korean IFRS 1039)		-	38,710
Interest expense		(844,080)	(708,391)
Net interest income	26	1,465,296	1,302,936
Fee and commission income		407,718	366,560
Fee and commission expense		(62,273)	(57,454)
Net fee and commission income	27	345,445	309,106
Net losses on financial assets/liabilities at fair value through profit or loss (Under Korean IFRS 1039)	28	-	(41,657)
Net losses on financial assets/liabilities at fair value through profit or loss		(13,477)	-
Net other operating income (expense)	29	(104,799)	50,820
General and administrative expenses	14,15,23,30,40	(847,437)	(839,520)
Operating profit before provision for credit losses		845,028	781,685
Provision for credit losses	7,11,12,17,22	(30,796)	(147,020)
Operating profit		814,232	634,665
Share of profit of associates	13	11,474	9,599
Net other non-operating income	31	112,742	27,889
Net non-operating profit		124,216	37,488
Profit before income tax expense		938,448	672,153
Income tax expense	32	(248,241)	(8,692)
Profit for the period		690,207	663,461
(Adjusted profit after provision of regulatory reserve for credit losses	25		
March 31, 2018 (Three months) : ₩586,629 million			
March 31, 2017 (Three months) : ₩685,581 million)			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	23	(4,267)	(2,727)
Net gains on equity instruments at fair value through other comprehensive income		38,993	-
Items that may be reclassified subsequently to profit or loss:			
Currency translation adjustments		12,885	(39,955)
Gains on valuation of financial investments		-	70,560
Net gains on debt instruments at fair value through other comprehensive income		9,819	-
Share of other comprehensive income of associates		(2,253)	21,391
Gains on hedging instruments of net investments in foreign operations		1,628	6,691
Gains (Losses) on cash flow hedging instruments		8,020	(168)
Other comprehensive income for the period, net of tax	34	64,825	55,792
Total comprehensive income for the period		755,032	719,253
Profit attributable to:			
Shareholder of the Parent Company		690,207	663,461
Non-controlling interests		-	-
		690,207	663,461
Total comprehensive income for the period attributable to:			
Shareholder of the Parent Company		755,032	719,253
Non-controlling interests		-	-
		755,032	719,253

[1] The interim consolidated statement of comprehensive income for the three-month period ended March 31, 2018 is prepared applying Korean IFRS 1109, and the comparative consolidated statement of comprehensive income for the three-month period ended March 31, 2017 has not been restated retrospectively as permitted by transitional provisions of Korean IFRS 1109.

The accompanying notes are an integral part of these interim consolidated financial statements.

Kookmin Bank and Subsidiaries

Interim Consolidated Statements of Changes in Equity

Three-Month Periods Ended March 31, 2018 and 2017

(In millions of Korean won)	Notes	Attributable to the shareholder of the Parent Company: Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2017		2,021,896	5,219,704	494,863	15,588,539	-	23,325,002
Comprehensive income for the period							
Profit for the period		-	-	-	663,461	-	663,461
Remeasurements of net defined benefit liabilities		-	-	(2,727)	-	-	(2,727)
Currency translation differences		-	-	(39,955)	-	-	(39,955)
Gains on valuation of financial investments		-	-	70,560	-	-	70,560
Share of other comprehensive income of associates		-	-	21,391	-	-	21,391
Gains on hedging instruments of a net investment in a foreign operation		-	-	6,691	-	-	6,691
Losses on cash flow hedging instruments		-	-	(168)	-	-	(168)
Total comprehensive income for the period		-	-	55,792	663,461	-	719,253
Transactions with the shareholder							
Dividends		-	-	-	(359,493)	-	(359,493)
Total transactions with the shareholder		-	-	-	(359,493)	-	(359,493)
Balance at March 31, 2017 (Unaudited)		2,021,896	5,219,704	550,655	15,892,507	-	23,684,762
Balance at January 1, 2018		2,021,896	5,219,693	678,094	17,403,751	-	25,323,434
The effect of changes in accounting policies	42	-	-	(490,091)	274,943	-	(215,148)
Balance after reflecting the change of accounting policies		2,021,896	5,219,693	188,003	17,678,694	-	25,108,286
Comprehensive income for the period							
Profit for the period		-	-	-	690,207	-	690,207
Remeasurements of net defined benefit liabilities		-	-	(4,267)	-	-	(4,267)
Net gains on equity instruments at fair value through other comprehensive income		-	-	38,993	-	-	38,993
Currency translation differences		-	-	12,885	-	-	12,885
Net gains on debt instruments at fair value through other comprehensive income		-	-	9,819	-	-	9,819
Share of other comprehensive expense of associates		-	-	(2,253)	-	-	(2,253)
Gains on hedging instruments of net investments in foreign operations		-	-	1,628	-	-	1,628
Gains on cash flow hedging instruments		-	-	8,020	-	-	8,020
Total comprehensive income for the period		-	-	64,825	690,207	-	755,032
Transactions with the shareholder							
Dividends		-	-	-	(640,132)	-	(640,132)
Changes in ownership of subsidiaries		-	93	-	-	-	93
Total transactions with the shareholder		-	93	-	(640,132)	-	(640,039)
Balance at March 31, 2018 (Unaudited) [1]		2,021,896	5,219,786	252,828	17,728,769	-	25,223,279

[1] The interim consolidated statement of changes in equity for the three-month period ended March 31, 2018 is prepared applying Korean IFRS 1109, and the comparative consolidated statement of changes in equity for the three-month period ended March 31, 2017 has not been restated retrospectively as permitted by transitional provisions of Korean IFRS 1109.

The accompanying notes are an integral part of these interim consolidated financial statements.

Kookmin Bank and Subsidiaries
Interim Consolidated Statements of Cash Flows
Three-Month Periods Ended March 31, 2018 and 2017

(In millions of Korean won)	Notes	Three-Month Period Ended March 31 2018[1] (Unaudited)	2017 (Unaudited)
Cash flows from operating activities			
Profit for the period		690,207	663,461
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss (Under Korean IFRS 1039)		-	(51,096)
Net losses on financial assets/liabilities at fair value through profit or loss		59,814	-
Net losses on derivative financial investments for hedging purposes		52,463	5,434
Adjustment of fair value of derivative financial instruments		2,819	(377)
Provision for credit losses		30,796	147,020
Net gains on financial investments		(2,612)	(2,097)
Share of profit of associates and subsidiaries		(11,474)	(9,599)
Depreciation and amortization expense		50,619	50,654
Other net losses (gains) on property and equipment/intangible assets		(111,889)	4,208
Share-based payment		1,279	8,111
Post-employment benefits		34,174	35,884
Net interest expense		74,217	85,240
Gains on foreign currency translation		(51,164)	(38,928)
Other expense (income)		(584)	11,986
		128,458	246,440
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss (Under Korean IFRS 1039)		-	(135,153)
Financial assets at fair value through profit or loss		(2,415,335)	-
Derivative financial instrument		(33,482)	41,976
Loans at amortized cost		(5,697,080)	(347,392)
Current income tax assets		(826)	(10,964)
Deferred income tax assets		202	12,509
Other assets		(4,349,792)	(4,718,079)
Financial liabilities at fair value through profit or loss (Under Korean IFRS 1039)		-	4,452
Financial liabilities at fair value through profit or loss		3,306	
Deposits		6,575,278	3,281,881
Deferred income tax liabilities		75,098	(184)
Other liabilities		2,132,729	2,313,905
		(3,709,902)	442,951
Net cash inflow (outflow) from operating activities		(2,891,237)	1,352,852
Cash flows from investing activities			
Net cash flows from derivative financial instrument for hedging purposes		23,373	(3,088)
Disposal of financial assets at fair value through profit or loss		837,105	-
Acquisition of financial assets at fair value through profit or loss		(1,742,911)	-
Disposal of financial investments		7,457,758	5,331,869
Acquisition of financial investments		(7,650,295)	(5,975,541)
Disposal of investments in associates		17,162	10,699
Acquisition of investments in associates		(6,616)	(6,731)
Disposal of property and equipment		(514)	26
Acquisition of property and equipment		(20,144)	(19,846)
Acquisition of investment property		(178)	-
Disposal of intangible assets		-	186
Acquisition of intangible assets		(11,507)	(14,924)
Net cash flows from changes in ownership of subsidiaries		400	-
Others		256,975	32,600
Net cash outflow from investing activities		(839,392)	(644,750)
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		845	8,671
Net increase (decrease) in debts		1,799,203	(1,235,921)
Increase in debentures		2,843,639	2,311,485
Decrease in debentures		(1,708,997)	(2,507,077)
Payment of dividends		(640,132)	(359,493)
Net increase (decrease) in other payables from trust accounts		551,730	(178,872)
Others		(85,779)	7,745
Net cash inflow (outflow) from financing activities		2,760,509	(1,953,462)
Exchange gains (losses) on cash and cash equivalents		1,695	(47,040)
Net decrease in cash and cash equivalents		(968,425)	(1,292,400)
Cash and cash equivalents at the beginning of the period	36	6,077,954	6,338,158
Cash and cash equivalents at the end of the period	36	5,109,529	5,045,758

[1] The interim consolidated statement of cash flows for the three-month period ended March 31, 2018 is prepared applying Korean IFRS 1109, and the comparative consolidated statement of cash flows for the three-month period ended March 31, 2017 has not been restated retrospectively as permitted by transitional provisions of Korean IFRS 1109.

The accompanying notes are an integral part of these interim consolidated financial statements.

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 shareholder 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 at March 31, 2018, 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 at March 31, 2018, the Bank operates 1,055 domestic branches and offices, and five overseas branches (excluding five subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

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 interim consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

The interim 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.

The preparation of the interim 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 interim consolidated financial statements are disclosed in Note 2.4.

The Group's interim consolidated financial statements for the three-month period ended March 31, 2018, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim consolidated financial statements have been prepared in accordance with Korean IFRS standards issued and early adopted at the end of the reporting period.

The Group newly applied the following amended and enacted standards and interpretations from January 1, 2018, and these applications do not have a material impact on the consolidated financial statements, except for the adoption of Korean IFRS 1109 *Financial Instruments.*

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund and similar entities, the entity may elect to measure that investment at fair value through profit or loss. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture.

- Amendments to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples.

- Amendments to Korean IFRS 1102 *Share-based Payment*

The amendments clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled and also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award.

- Enactment of Interpretation 2122 *Foreign Currency Transactions and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

- Amendments to Korean IFRS 1109 *Financial Instruments*

The Group adopted Korean IFRS 1109 *Financial Instruments* with a date of initial application of January 1, 2018. As permitted by the transitional provisions of Korean IFRS 1109, comparative periods have not been restated. The Group recognized the difference between the previous carrying amount and the carrying amount at the date of initial application in retained earnings (or other component of equity, as appropriate) as of January 1, 2018.

For the detail impacts of the adoption of Korean IFRS 1109, see Note 42.

- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has adopted Korean IFRS 1115, *Revenue from Contracts with Customers* from January 1, 2018. The new standard for revenue recognition replaced Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of Assets from Customers*.

The Group has changed the following accounting policy for the period beginning on January 1, 2018.

- Presentation of interest income arising from financial assets at fair value through profit or loss

The Group previously recognized interest income arising from financial assets at fair value through profit or loss (under Korean IFRS 1039) as net gains (losses) of financial assets/liabilities at fair value through profit or loss (under Korean IFRS 1039) in the statement of comprehensive income. From January 1, 2018, the Group changed the accounting policy and corresponding interest income was presented as a part of interest income in the statement of comprehensive income. The Group believes the change in accounting policy provides more relevant information. The statement of comprehensive income for the three-month period ended March 31, 2017 has been restated by adjusting classification of interest income.

This change in accounting policy does not have any impact on the statements of financial position as at March 31, 2018 and 2017, and profit for the three-month periods ended March 31, 2018 and 2017. The impacts on the statements of comprehensive income for the three-month periods ended March 31, 2018 and 2017 are as follows:

(in millions of Korean won)	**2018**	**2017**
Increase in interest income	50,110	38,710
Decrease in net gains on financial assets/liabilities at fair value through profit or loss (under Korean IFRS 1109)	(50,110)	-
Decrease in net gains on financial assets/liabilities at fair value through profit or loss (under Korean IFRS 1039)	-	(38,710)

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

- Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the Group shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the Group shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the Group may not need to reassess all contracts with applying the practical expedient that can be applied to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the Group shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

A leasee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below $ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

From a lessor’s accounting perspective, Korean IFRS 1116 will not significantly change in comparison to Korean IFRS 1017.

The Group is analyzing the financial impact of the adoption of Korean IFRS 1116 on its financial statements.

2.2 Measurement Basis

The interim consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

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 interim consolidated financial statements are presented in Korean won, which is the Parent Company’s functional and presentation currency. Refer to Notes 3.2.

2.4 Critical Accounting Estimates

The preparation of interim 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 interim 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, and others in accordance with the Tax Law for Promotion of investment and Collaborative Cooperation (Recirculation of Corporate Income), the Group is liable to pay additional income tax calculated based on the tax laws. The new tax law is effective for three years from 2018 and measurement of current and deferred income tax is affected. As the Group’s income tax is dependent on the investments, increase in wages, and others, 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.

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 financial assets at amortized cost and fair value through other comprehensive income through impairment test and recognizes provisions for acceptances and guarantees, and unused loan commitments . The accuracy of provisions for credit losses is determined by the methodology and assumptions used for the estimation of expected cash flows of the borrower for individually assessed allowances of loans, collectively assessed allowances for groups of loans, acceptances and 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. The items related to financial instruments on the financial statements are accounted for applying Koreans IFRS 1109 for the current period, and Korean IFRS 1039 for the comparative prior period, respectively.
Comparative financial statements are not restated retrospectively and the described accounting policies on financial instruments are applied for the financial statements for the current period. Except for the changes in accounting policies related to financial instruments, these policies have been consistently applied to all periods presented.

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 interim 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 interim consolidated financial statements.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests, if any. Total comprehensive income is attributed 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.

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 interim 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.

The Group determines at each reporting period 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 ‘non-operating income (expense)’ 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 interim 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 interim 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 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 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 the separate component of equity, is reclassified from other comprehensive income 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.

The Group classifies financial assets as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income or financial assets at amortized cost. The Group classifies financial liabilities as financial liabilities at fair value through profit or loss, or other financial liabilities. The classification depends on the Group's business model for managing financial instruments and the contractual cash flow characteristics of the financial instruments at initial recognition.

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.

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 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 entirely and recognize a financial liability for the consideration received.

The Group writes off the carrying amount and allowance of financial assets in its entirety or to a portion thereof when the principal and interest are determined to be no longer recoverable. In general, the Group considers write-off when it is determined that the debtor does not have sufficient resources or income to cover the principal and interest, and this write-off decision is made in accordance with internal regulations. After the write-off, the Group can collect the written-off loans continuously according to the internal policy. Recovered amounts from written-off financial assets are recognized in profit or loss.

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 expired.

3.3.4 Offsetting

A financial asset and a financial liability are offset and the net amount are 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

Financial assets classified as held for trading, financial assets designated by the Group as at fair value through profit or loss upon initial recognition, and financial assets that are required to be mandatorily measured at fair value through profit or loss are classified as financial assets at fair value through profit or loss.

The Group may designate certain financial assets upon initial recognition as at fair value through profit or loss when the designation 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.

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 using the effective interest method and dividend income from financial assets at fair value through profit or loss are also recognized in profit or loss.

3.5.2 Financial Assets at Fair Value through Other Comprehensive Income

The Group classifies below financial assets as financial assets at fair value through other comprehensive income;

- Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where the assets' cash flows represent solely payments of principal and interest on the principal amount outstanding or;

- Equity instruments that are not held for trading with the objective of generating a profit from short-term fluctuations in price or dealer's margin, designated as financial assets at fair value through other comprehensive income

After initial recognition, a financial asset at fair value through other comprehensive income is measured at fair value. Gains or losses arising from a change in fair value, other than dividend income, interest income using effective interest method and exchange differences arising on monetary items which are recognized directly in profit or loss, are recognized as other comprehensive income in equity.

Upon disposal of financial assets at fair value through other comprehensive income, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. However, cumulative gain or loss of equity instrument designated as fair value through other comprehensive income are not reclassified to profit or loss at disposal.

Financial assets at fair value through other comprehensive income denominated in foreign currencies are translated at the closing rate. Exchange differences resulting from changes in amortized cost are recognized in profit or loss, and other changes are recognized as equity.

3.5.3 Financial Assets at Amortized Cost

A financial asset, which are held within the business model whose objective is to hold assets in order to collect contractual cash flows and consistent with representing solely payments of principal and interest on the principal amount outstanding, are classified as a financial asset at amortized cost.

These financial assets are subsequently carried at amortized cost using the effective interest method after initial recognition and interest income is recognized using the effective interest method.

The carrying amount of financial assets at amortized cost is presented by deducting allowance for doubtful accounts, and the measurement method is described in Note 3.6.

3.6 Expected Credit Loss of Financial Assets (Debt Instruments)

The Group measures expected credit loss and recognizes loss allowance at the end of the reporting period for financial assets at amortized cost and fair value through other comprehensive income with the exception of financial asset at fair value through profit or loss.

Expected credit losses are estimated at present value of probability-weighted amount that is determined by evaluating a range of possible outcomes. The Group measures expected credit losses by reflecting reasonable and supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions.

The approaches of measuring expected credit losses in accordance with Korean IFRS are as follows:

- General approach: for financial assets not subject to the below approach and unused loan commitments on off-balance sheet
- Credit-impaired approach: for financial assets that are credit-impaired at the time of acquisition

Application of general approach is differentiated depending on whether credit risk has increased significantly after initial recognition. After initial recognition, loss allowances for the assets without significant increase in credit risk are measured at the amount of 12 month expected credit losses, whereas the loss allowances for the assets with significant increase in credit risk are measured at the amount of lifetime expected credit losses. Lifetime is presumed to be a period to the contractual maturity date of financial assets (the expected life of financial assets).

The Group determines whether the credit risk has increased significantly using the following information, and if one or more of the following items are met, it is deemed as significant increase in credit risk. Information of more than 30 days overdue is applied to all subsidiaries, and other information is applied selectively considering specific indicators of each subsidiary or additionally considering specific indicators of each subsidiary. When the contractual cash flows of a financial asset are renegotiated or otherwise modified, the Group determines whether the credit risk has increased significantly using the same following information.

- More than 30 days past due

- Decline in credit rating at period end by more than certain notches as compared to that at initial recognition
- Subsequent managing ratings below certain level in the early warning system
- Debt restructuring (except for impaired financial assets) and
- Credit delinquency information on Korea Federation of Banks, and etc.

If one or more of the following items are met, it is generally deemed as credit-impaired:

- More than 90 days past due
- Legal proceedings related to collection
- A borrower registered on the credit management list of Korea Federation of banks
- A corporate borrower with the credit rating C or D
- Refinancing or
- Debt restructuring, and etc.

3.6.1 Forward-looking Information

The Group uses forward-looking information, when it determines whether the credit risk has increased significantly and measures the expected credit losses.

The Group assumes the risk component has a certain correlation with the economic cycle, and calculates the expected credit loss by reflecting the forward-looking information using modeling of macroeconomic variables and the risk component.

Forward looking information used in calculation of expected credit loss is derived by KB Research under KB financial Group with comprehensive consideration of a variety of factors including scenario in management planning, third party forecast, and others.

3.6.2 Measuring Expected Credit Losses on Financial Assets at Amortized Cost

The expected credit losses on financial assets at amortized cost are measured as the difference between the asset's contractual terms of cash flow and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The Group estimates expected future cash flows for financial assets that are individually significant (individual assessment of impairment).

For financial assets that are not individually significant, the Group collectively estimates expected credit loss by grouping loans with homogeneous credit risk profile (collective assessment of impairment).

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

Collective assessment of impairment is performed by using a methodology based on historical loss experience and reflecting forward-looking information. Such methodology applies factors such as type of collateral, product and borrowers, credit rating, portfolio size, recovery period, probability of default estimated for each 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 expected credit loss and to determine factors on the basis of historical loss experience and forward-looking information. The methodology and assumptions used for collective assessment of impairment are reviewed regularly to reduce any differences between estimated and actual losses.

Lifetime expected credit loss is measured by applying Probability of Default ("PD") and adjusted Loss Given Default ("LGD ") reflecting the changes in carrying amount to the carrying amount as at the end of the reporting period deducted by expected repayment of principals.

3.6.3 Measuring Expected Credit Losses on Financial Assets at Fair Value through Other Comprehensive Income

Measuring method of expected credit losses on financial assets at fair value through other comprehensive income is equal to the method of financial assets at amortized cost, except for changes in loss allowances that are recognized as other comprehensive income. Upon disposal or repayment of financial assets at fair value through other comprehensive income, the amount of loss allowances is reclassified from other comprehensive income to profit or loss.

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. 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. 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 and non-derivatives as hedging instruments to hedge the risk of changes in fair value and cash flow of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge and cash flow hedge). The Group designates part of derivatives and 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.

See Note 9 for changes in fair value of the hedging instruments and changes in other comprehensive income related to derivatives held for cash flow hedging, .

The Group applies hedge accounting for risk management activities aligned with the requirements and qualifying criteria for hedge accounting of Korean IFRS 1109.

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 changes 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.

3.7.2 Fair Value Hedges

If derivatives and non-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. If the hedged items are equity instruments for which the Group has elected to present changes in fair value in other comprehensive income, 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 other comprehensive income. 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 amortized to profit or loss by the maturity of the financial instrument using the effective interest method.

3.7.3 Cash Flow Hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income, limited to the cumulative change in fair value (present value) of the hedged item (the present value of the cumulative change in the future expected cash flows of the hedged item) from the inception of the hedge. The ineffective portion is recognized in gain or loss (other operating income or expense). The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss (other operating income and expenses) as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. Cash flow 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. When the cash flow hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income are reclassified to profit or loss over the period in which the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

3.7.4 Hedge of Net Investment

If derivatives and non-derivatives 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 net other operating income (expense). 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.

3.7.5 Risk Management Strategy

Interest rate risk arises from changes in fair value resulting from changes in the discount rate of fixed rate financial instruments, and changes in cash flows resulting from changes in the nominal interest rate of floating rate financial instruments. Foreign currencies risk arises from net investment in a foreign operation, whose functional currencies differ from the Group's functional currency.

While the Group entirely hedges the interest rate risk, the Group hedges the foreign currencies risk only the proportional part of the notional amount.

At inception of the hedge relationship, the Group reviews the hedge effectiveness; and periodically reviews the effectiveness in order to confirm that economic relationship between the hedged item and the hedging instrument exists. The requirement that an economic relationship exists means that the hedging instrument and the hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk. The Group designates the exposure of hedged item opposite to the exposure of hedging instruments in order to meet economic relationship requirement.

The Group designates hedge relationship at one-on-one ratio between the nominal amount of hedging instrument and to the nominal amount of hedged item.

Ineffectiveness could arise because of differences in the underlying parameters(acquisition date, credit risk or liquidity and others) or other differences between the hedging instrument and the hedged item that the Group accepts in order to achieve a cost-effective hedging relationship.

The Group avoids the cash flow volatility of its floating rate debt securities by using interest rate swaps. Both are linked to the same interest rate; however, the paid amount of the floating rate may be set on different dates. Even if the volatility of interest rate related cash flows (as a risk factor) are designated as a hedged item, the difference in set-up dates creates an hedge ineffectiveness.

The Group avoids the variability of fair values of its fixed rate debt securities by using interest rate swaps. The calculating method of the number of the dates for paying fixed-rate interest amount can be different between both. Even if the volatility of the fair value due to the benchmark interest rate (as a risk factor) are designated as a hedged item, the difference calculating in set-up dates creates an hedge ineffectiveness.

3.7.6 Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if, and only if, 1) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and, 3) the hybrid contract contains a host that is not a financial asset and is not designated as at fair value through 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.

3.7.7 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.

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 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.

The depreciation method and estimated useful lives of the assets are as follows:

Investment properties	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 years
Software	Straight-line	4 ~ 5 years
Others	Straight-line	1 ~ 10 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 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.

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.

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 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.

3.15 Financial Liabilities at Fair Value through Profit or Loss

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.
The Group recognizes financial liabilities in the statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

3.15.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities 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 that are directly attributable to the acquisition are recognized in profit or loss as incurred.

In relation to securities lending or borrowing transactions, the Group records transaction using memorandum value when it borrows securities from Korea Securities Depository and others. The borrowed securities are treated as financial liabilities at fair value through profit or loss when they are sold. Changes in fair value at the end of the reporting period and difference between carrying amount at redemption and purchased amount is recognized as profit or loss.

3.15.2 Other Financial Liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities include deposits, debts, debentures and others. Upon of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

In case an asset is sold under repurchase agreement, the Group does not derecognize the asset while the amount sold is accounted for as financial liabilities.
The Group derecognizes a financial liability from the consolidated statement of financial position only when the obligation specified in the contract is discharged, cancelled or expired.

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.

When an onerous contract is occurred, the present obligation under the contract is recognized and measured as provisions.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires 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.

Financial guarantee contracts are initially recognized at fair value and classified as other liabilities, and are amortized over the contractual term. After initial recognition, financial guarantee contracts are measured at the higher of:

- Provisions measured in accordance with Korean IFRS 1109 *Financial Instruments* and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers.*

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

The Group recognizes revenues in accordance with the following steps determined in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*.

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

3.19.1 Interest Income and Expense

Interest income and expense from debt securities at fair value through profit or loss (excluding beneficiary certificates, equity investments, other debt securities and derivative-linked securities), loans, financial instruments at amortized cost and debt securities at fair value through other comprehensive income, are recognized in statement of comprehensive income 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 (main components of effective interest rates only) 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. Interest income earned from debt instruments at fair value through profit or loss is also classified as interest income in the statement of comprehensive income.

3.19.2 Fee and Commission Income

The Group recognizes financial service fees in accordance with the purpose of charging the fees and 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 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 related to performance obligations in the contract satisfied over time

As control over related goods and services of fees and commission income of performance obligation contracts transfer over time, commission income is recognized over the period of performance obligations. Fees and commission income, including asset management fees and commission fees are recognized as the related services are rendered.

Fees earned at a point in time

Fees earned at a point in time are recognized when a customer obtains controls of a promised asset and the Group satisfies a performance obligation.

Commission on negotiation or participation in negotiation for the third party such as trading stocks or other securities, arranging transfer and acquisition of business is recognized as revenue when the transaction has been completed.

A syndication fee 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 Net gains/losses on financial instruments at fair value through profit or loss

Net gains/losses on financial instruments at fair value through profit or loss include profit or loss (including changes in fair value, dividends, and gain/loss from foreign currency translation) from following financial instruments:

- Gain or loss from financial instruments at fair value through profit or loss, excluding interest income calculated by the effective interest rate
- Gain or loss from derivatives for trading, including derivatives for hedging that does not meet the criteria for hedge accounting

3.19.4 Dividend Income

Dividend income is recognized as profit or loss when the right to receive payment is established. Dividend income is recognized as relevant profit or loss on the statement of comprehensive income depending on the classification of equity securities.

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 period.

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.

3.20.3 Share-based Payment

The Group has share grant and mileage stock programs to directors and employees of the Group. The Group has a choice of whether to settle share grant in cash or by issuing equity instruments of KB Financial Group Inc., the ultimate parent company, at the date of settlement, while the Group shall settle the mileage stock in cash based on the stock price.

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 fair value of the employee service is recognized as expense and accrued expenses over the vesting period. Also, the Group accounts for the mileage stock in accordance with the requirements of cash-settled share-based payment transactions, and recognizes the corresponding liability and expenses at the vesting period.

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. Income tax expense for the interim period is recognized based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year.

3.21.1 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 interim 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 tax assets and liabilities shall be 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 tax liabilities and deferred tax assets shall reflect 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 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.

3.21.2 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 interim 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, additional tax and additional dues on tax refund are recognized in accordance with Korean IFRS 1037 as its economic substances are considered as interest or penalties.

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.

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 management. Additional quantitative information is disclosed throughout the interim consolidated financial statements.

The Group’s risk management system focuses on increasing transparency, developing the risk management environment, preventing transmission of risk to other risk types, 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 and managed in Internal Capital or VaR (Value at Risk) 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 Subcommittee 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 approves exotic and hybrid products accompanying credit risk and reviews newly developed products accompanying credit risk. Also, it reviews and approves the exposure limits by industry.

- 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. The Group uses definition of default as defined and applied in the calculation of Capital Adequacy Ratio (Basel III) in accordance with the new Basel Accord.

4.2.2 Credit Risk Management

The Group measures expected losses and internal capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and internal capital as a management indicator. The Group manages credit risk by allocating credit risk internal 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 group, which are independent from the sales department, are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. The credit risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk internal 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 and beneficiary certificates, to credit risk without consideration of collateral values as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**
Financial assets	
Due from financial institutions [1]	15,596,983
Financial assets at fair value through profit or loss	
Securities	8,576,389
Loans	134,860
Financial instruments indexed to gold	74,401
Derivatives	2,320,746
Loans at amortized cost [1]	256,879,537
Financial investments	
Securities at fair value through other comprehensive income	24,103,041
Securities at amortized cost [1]	12,038,333
Other financial assets [1]	7,300,465
	327,024,755
Off-balance sheet items [2]	
Acceptances and guarantees contracts	6,992,862
Financial guarantee contracts	2,973,866
Commitments	77,099,461
	87,066,189
	414,090,944

[1] Due from financial institutions, loans at amortized cost, securities at amortized cost and other financial assets are presented net of allowance.
[2] For details of relevant provisions, see Note 22.

(In millions of Korean won)	**December 31, 2017**
Financial assets	
Due from financial institutions	13,048,893
Financial assets at fair value through profit or loss (under Korean IFRS 1039)	
Financial assets held for trading [1]	7,974,469
Financial assets designated at fair value through profit or loss	95,357
Derivatives	2,607,659
Loans [2]	251,710,605
Financial investments	
Available-for-sale financial assets	27,605,761
Held-to-maturity financial assets	8,737,150
Other financial assets [2]	6,341,463
	318,121,357
Off-balance sheet items	
Acceptances and guarantees contracts	6,977,468
Financial guarantee contracts	2,968,354
Commitments	50,851,024
	60,796,846
	378,918,203

[1] The amounts of ₩73,856 million as at December 31, 2017, 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.

The Group assesses expected credit loss on financial asset at amortized cost and financial asset at fair value through other comprehensive income other than financial asset at fair value through profit or loss and recognizes loss allowance. Expected credit losses are a probability-weighted estimate of possible credit losses occurred in a certain range by reflecting reasonable and supportable information that is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. The Group measures the expected credit losses on loans classified as financial assets measured at amortized cost, and by deducting allowances for credit losses. The expected credit losses of loans classified as financial assets at fair value through other comprehensive income are presented in other comprehensive income on the financial statements.

Credit risk exposure

Loans as at March 31, 2018, are classified as follows:

(In millions of Korean won)

	March 31, 2018					
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		Financial instruments applying credit impaired approach	Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired			
Financial assets at amortized cost						
Corporate						
Grade 1	63,336,929	1,251,493	1,101	-	-	64,589,523
Grade 2	49,993,054	4,284,166	2,503	-	-	54,279,723
Grade 3	3,206,133	1,947,105	4,140	-	-	5,157,378
Grade 4	387,894	921,980	27,358	-	-	1,337,232
Grade 5	27,657	315,279	1,149,817	-	-	1,492,753
	116,951,667	8,720,023	1,184,919	-	-	126,856,609
Retail						
Grade 1	114,888,467	3,969,327	9,978	-	-	118,867,772
Grade 2	4,035,773	6,752,054	6,742	-	-	10,794,569
Grade 3	146,777	861,242	5,904	-	-	1,013,923
Grade 4	215,773	134,920	5,718	-	-	356,411
Grade 5	6,551	267,202	377,516	-	-	651,269
	119,293,341	11,984,745	405,858	-	-	131,683,944
	236,245,008	20,704,768	1,590,777	-	-	258,540,553
Financial assets at fair value through profit or loss						
Corporate						
Grade 1	-	-	-	-	134,860	134,860
Grade 2	-	-	-	-	-	-
Grade 3	-	-	-	-	-	-
Grade 4	-	-	-	-	-	-
Grade 5	-	-	-	-	-	-
	-	-	-	-	134,860	134,860
	236,245,008	20,704,768	1,590,777	-	134,860	258,675,413

[1] Before netting of allowance.

	Corporate	Retail
Grade 1	AAA ~ BBB+	1 ~ 5 grade
Grade 2	BBB ~ BB	6 ~ 8 grade
Grade 3	BB- ~ B	9 ~ 10 grade
Grade 4	B- ~ CCC	11 grade
Grade 5	CC or under	12 grade or under

Loans as at December 31, 2017, are classified as follows:

(In millions of Korean won)

Loans	December 31, 2017					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	129,231,082	99.04	121,257,211	98.88	250,488,293	98.96
Past due but not impaired	865,485	0.66	198,270	0.16	1,063,755	0.42
Impaired	389,552	0.30	1,182,726	0.96	1,572,278	0.62
	130,486,119	100.00	122,638,207	100.00	253,124,326	100.00
Allowances	(318,533)	0.24	(1,095,188)	0.89	(1,413,721)	0.56
Carrying amount	130,167,586		121,543,019		251,710,605	

Credit qualities of loans that are neither past due nor impaired as at December 31, 2017 are as follows:

(In millions of Korean won)

	December 31, 2017		
	Retail	Corporate	Total
Grade 1	115,311,505	62,287,457	177,598,962
Grade 2	12,537,698	52,057,018	64,594,716
Grade 3	804,042	5,341,955	6,145,997
Grade 4	398,177	1,253,960	1,652,137
Grade 5	179,660	316,821	496,481
	129,231,082	121,257,211	250,488,293

Credit qualities of loans graded according to internal credit ratings as at December 31, 2017 are as follows:

	Corporate	Retail
Grade 1	AAA ~ BBB+	1 ~ 5 grade
Grade 2	BBB ~ BB	6 ~ 8 grade
Grade 3	BB- ~ B	9 ~ 10 grade
Grade 4	B- ~ CCC	11 grade
Grade 5	CC or under	12 grade or under

Loans that are past due but not impaired as at December 31, 2017 are as follows:

(In millions of Korean won)

	December 31, 2017			
	1 ~ 29 days	30 ~ 59 days	60 ~ 89 days	Total
Retail	736,264	87,901	41,320	865,485
Corporate	154,706	26,654	16,910	198,270
	890,970	114,555	58,230	1,063,755

Impaired loans as at December 31, 2017 are as follows:

(In millions of Korean won)

	December 31, 2017		
	Retail	**Corporate**	**Total**
Loans	389,552	1,182,726	1,572,278
Allowances	(126,691)	(771,131)	(897,822)
Individual	-	(684,377)	(684,377)
Collective	(126,691)	(86,754)	(213,445)
	262,861	411,595	674,456

Credit risk mitigation by collateral

The quantification of the extent to which collateral and other credit enhancements mitigate credit risk as at March 31, 2018 is as follows:

(In millions of Korean won)

	March 31, 2018					
	Financial instruments applying 12-month expected credit losses	**Financial instruments applying lifetime expected credit losses**		**Financial instruments applying credit impaired approach**	**Financial instruments not applying expected credit losses**	**Total**
		Non-impaired	**Impaired**			
Guarantees	53,151,668	5,516,400	156,828	-	-	58,824,896
Deposits and savings	1,298,096	77,197	14,536	-	-	1,389,829
Property and equipment	2,204,976	86,109	623	-	-	2,291,708
Real estate	136,702,008	11,955,604	393,152	-	-	149,050,764
	193,356,748	17,635,310	565,139	-	-	211,557,197

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as at December 31, 2017, is as follows:

(In millions of Korean won)

	December 31, 2017				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantees	17,257	107,610	198,379	57,399,810	57,723,056
Deposits and savings	10,501	5,375	23,126	1,576,897	1,615,899
Property and equipment	125	456	43	2,091,917	2,092,541
Real estate	96,010	271,937	638,044	145,583,507	146,589,498
	123,893	385,378	859,592	206,652,131	208,020,994

4.2.5 Credit risk of due from financial institutions

The credit quality of due from financial institutions as at March 31, 2018, is classified as follows:

(In millions of Korean won)

	March 31, 2018				
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		Financial instruments applying credit impaired approach	Total
		Non-impaired	Impaired		
Due from financial institutions at amortized cost					
Grade 1	15,154,818	-	-	-	15,154,818
Grade 2	58,424	-	-	-	58,424
Grade 3	357,541	-	-	-	357,541
Grade 4	27,488	-	-	-	27,488
Grade 5	-	-	-	-	-
	15,598,271	-	-	-	15,598,271

[1] Before netting of allowance.

4.2.6 Credit Quality of Securities

The credit quality of financial assets at fair value through profit or loss and financial investments, excluding equity securities and beneficiary certificates, that are exposed to credit risk as at March 31, 2018, are as follows:

(In millions of Korean won)

	March 31, 2018					
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		Financial instruments applying credit impaired approach	Financial instruments not applying expected credit losses	Total
		Non-impaired	Impaired			
Securities at amortized cost						
Grade 1	12,029,680	-	-	-	-	12,029,680
Grade 2	10,042	-	-	-	-	10,042
Grade 3	-	-	-	-	-	-
Grade 4	-	-	-	-	-	-
Grade 5	-	-	-	-	-	-
	12,039,722	-	-	-	-	12,039,722
Securities at fair value through other comprehensive income						
Grade 1	23,642,419	-	-	-	-	23,642,419
Grade 2	325,585	-	-	-	-	325,585
Grade 3	94,609	7,474	-	-	-	102,083
Grade 4	5,774	21,822	-	-	-	27,596
Grade 5	5,357	-	-	-	-	5,357
	24,073,744	29,296	-	-	-	24,103,040
Securities at fair value through profit or loss						
Grade 1	-	-	-	-	7,584,533	7,584,533
Grade 2	-	-	-	-	922,931	922,931
Grade 3	-	-	-	-	42,162	42,162
Grade 4	-	-	-	-	26,764	26,764
Grade 5	-	-	-	-	-	-
	-	-	-	-	8,576,390	8,576,390
	36,113,466	29,296	-	-	8,576,390	44,719,152

[1] Before netting of allowance

The credit qualities of securities, excluding equity securities and beneficiary certificates according to the credit ratings by external rating agencies as at March 31, 2018, are as follows:

Credit quality	Domestic			Foreign		
	KIS	NICE P&I	FnPricing Inc.	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.
Financial assets at fair value through profit or loss and financial investments, excluding equity securities and beneficiary certificates, that are exposed to credit risk as at December 31, 2017 are as follows:

(In millions of Korean won)	**December 31, 2017**
Securities that are neither past due nor impaired	44,338,881
Impaired securities	-
	44,338,881

The credit quality of securities, excluding equity securities and beneficiary certificates, that are neither past due nor impaired as at December 31, 2017, is as follows:

(In millions of Korean won)

	December 31, 2017					
	Grade 1	**Grade 2**	**Grade 3**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	6,525,798	1,304,926	44,157	25,732	-	7,900,613
Financial assets designated at fair value through profit or loss	95,357	-	-	-		95,357
Available-for-sale financial assets	27,433,166	144,312	25,762	2,521	-	27,605,761
Held-to-maturity financial assets	8,737,150	-	-	-	-	8,737,150
	42,791,471	1,449,238	69,919	28,253	-	44,338,881

The credit qualities of securities, excluding equity securities and beneficiary certificates, according to the credit ratings by external rating agencies as at December 31, 2017, are as follows:

Credit	**Domestic**			**Foreign**		
quality	**KIS**	**NICE P&I**	**FnPricing Inc.**	**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

Credit qualities of debt securities 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 rating by the three foreign credit rating agencies above.

4.2.7 Credit Risk Mitigation of Derivative Financial Instruments

The quantification of the extent to which collateral mitigates credit risk of derivative financial instruments as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Deposits and savings, securities and others	901,508	1,198,373

4.2.8 Credit Risk Concentration Analysis

Details of the Group's loans by country as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	March 31, 2018					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	131,578,279	123,330,529	254,908,808	98.53	(1,630,294)	253,278,514
China	-	1,965,178	1,965,178	0.76	(19,323)	1,945,855
Japan	561	174,521	175,082	0.07	(4,086)	170,996
United States	-	999,105	999,105	0.39	(5,044)	994,061
Europe	-	200,189	200,189	0.08	(328)	199,861
Others	105,104	321,947	427,051	0.17	(1,941)	425,110
	131,683,944	126,991,469	258,675,413	100.00	(1,661,016)	257,014,397

(In millions of Korean won)

	December 31, 2017					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	130,390,627	119,273,608	249,664,235	98.63	(1,369,907)	248,294,328
China	-	1,867,380	1,867,380	0.74	(30,720)	1,836,660
Japan	539	127,009	127,548	0.05	(6,268)	121,280
United States	-	866,867	866,867	0.34	(1,599)	865,268
Europe	-	192,980	192,980	0.08	(2,326)	190,654
Others	94,953	310,363	405,316	0.16	(2,901)	402,415
	130,486,119	122,638,207	253,124,326	100.00	(1,413,721)	251,710,605

Details of the Group's corporate loans by industry as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	10,425,422	8.21	(4,518)	10,420,904
Manufacturing	39,331,185	30.98	(549,704)	38,781,481
Service	54,261,533	42.73	(293,052)	53,968,481
Wholesale and retail	15,308,637	12.05	(96,253)	15,212,384
Construction	2,609,092	2.05	(247,400)	2,361,692
Public	829,047	0.65	(2,749)	826,298
Others	4,226,553	3.33	(26,777)	4,199,776
	126,991,469	100.00	(1,220,453)	125,771,016

(In millions of Korean won)	December 31, 2017			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	9,041,823	7.38	(6,265)	9,035,558
Manufacturing	39,127,515	31.90	(434,349)	38,693,166
Service	52,794,807	43.05	(281,847)	52,512,960
Wholesale and retail	14,620,777	11.92	(85,972)	14,534,805
Construction	2,538,256	2.07	(269,185)	2,269,071
Public	834,687	0.68	(2,911)	831,776
Others	3,680,342	3.00	(14,659)	3,665,683
	122,638,207	100.00	(1,095,188)	121,543,019

Details of the Group's retail loans by type as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	63,219,532	48.01	(20,037)	63,199,495
General purpose	68,464,412	51.99	(420,526)	68,043,886
	131,683,944	100.00	(440,563)	131,243,381

(In millions of Korean won)	December 31, 2017			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	62,319,992	47.76	(14,914)	62,305,078
General purpose	68,166,127	52.24	(303,619)	67,862,508
	130,486,119	100.00	(318,533)	130,167,586

Details of the Group's mortgage loans[1] as at March 31, 2018, are as follows:

(In millions of Korean won)	March 31, 2018			
	Loans	**%**	**Allowances**	**Carrying amount**
Group1	4,828,497	5.28	(2,080)	4,826,417
Group2	16,188,312	17.69	(7,381)	16,180,931
Group3	34,801,980	38.03	(7,288)	34,794,692
Group4	35,574,004	38.87	(11,375)	35,562,629
Group5	104,195	0.11	(82)	104,113
Group6	22,466	0.02	(411)	22,055
	91,519,454	100.00	(28,617)	91,490,837

[1] Retail loans for general purpose with the real estate as collateral are included.

	Ranges
Group1	LTV 0% to less than 20%
Group2	LTV 20% to less than 40%
Group3	LTV 40% to less than 60%
Group4	LTV 60% to less than 80%
Group5	LTV 80% to less than 100%
Group6	LTV over 100%

[1] LTV: Loan to Value ratio

Credit risk concentration by industry of due from financial institutions, securities, excluding equity securities and beneficiary certificates, and derivative financial instruments

Details of the Group's credit risk concentration of due from financial institutions, securities, excluding equity securities and beneficiary certificates, and derivative financial instruments as at March 31, 2018, are as follows:

(In millions of Korean won)	March 31, 2018			
	Amount	%	**Allowances**	**Carrying amount**
Due from financial institutions at amortized cost				
Finance and insurance	15,598,271	100.00	1,288	15,596,983
	15,598,271	100.00	1,288	15,596,983
Securities at fair value through profit or loss				
Government and government funded institutions	2,768,482	32.28	-	2,768,482
Finance and insurance	4,080,311	47.58	-	4,080,311
Others	1,727,596	20.14	-	1,727,596
	8,576,389	100.00	-	8,576,389
Derivatives				
Government and government funded institutions	24,289	1.05	-	24,289
Finance and insurance	2,196,854	94.66	-	2,196,854
Others	99,603	4.29	-	99,603
	2,320,746	100.00	-	2,320,746
Securities at fair value through other comprehensive income[1]				
Government and government funded institutions	8,851,008	36.72	-	8,851,008
Finance and insurance	13,805,575	57.28	-	13,805,575
Others	1,446,458	6.00	-	1,446,458
	24,103,041	100.00	-	24,103,041
Securities at amortized cost				
Government and government funded institutions	2,970,667	24.68	-	2,970,667
Finance and insurance	9,028,900	74.99	1,378	9,027,522
Others	40,155	0.33	11	40,144
	12,039,722	100.00	1,389	12,038,333
	62,638,169		2,677	62,635,492

[1] Expected credit loss of securities at fair value through other comprehensive income is ₩ 2,205 million

Details of the Group's credit risk of securities, excluding equity securities, and derivative financial instruments by industry as at December 31, 2017, are as follows:

(In millions of Korean won)	December 31, 2017	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	2,408,760	30.49
Finance and Insurance	3,876,344	49.06
Others	1,615,509	20.45
	7,900,613	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	95,357	100.00
	95,357	100.00
Derivative financial assets		
Government and government funded institutions	12,099	0.47
Finance and Insurance	2,464,286	94.50
Others	131,274	5.03
	2,607,659	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,188,744	29.67
Finance and Insurance	18,044,307	65.36
Others	1,372,710	4.97
	27,605,761	100.00
Held-to-maturity financial assets		
Government and government funded institutions	2,563,480	29.34
Finance and Insurance	6,073,478	69.51
Others	100,192	1.15
	8,737,150	100.00
	46,946,540	

Details of the Group's credit risk of due from financial institutions, securities, excluding equity securities and beneficiary certificates, and derivative financial instruments by country, as at March 31, 2018, are as follows:

(In millions of Korean won)	**March 31, 2018**			
	Amount	**%**	**Allowances**	**Carrying amount**
Due from financial institutions at amortized cost				
Korea	12,872,235	82.52	-	12,872,235
United States	1,269,923	8.14	9	1,269,914
Others	1,456,113	9.34	1,279	1,454,834
	15,598,271	100.00	1,288	15,596,983
Securities at fair value through profit or loss				
Korea	7,579,954	88.38	-	7,579,954
United States	458,611	5.35	-	458,611
Others	537,824	6.27	-	537,824
	8,576,389	100.00	-	8,576,389
Derivatives				
Korea	1,061,963	45.76	-	1,061,963
United States	281,778	12.14	-	281,778
Others	977,005	42.10	-	977,005
	2,320,746	100.00	-	2,320,746
Securities at fair value through other comprehensive income[1]				
Korea	23,418,879	97.16	-	23,418,879
United States	304,353	1.26	-	304,353
Others	379,809	1.58	-	379,809
	24,103,041	100.00	-	24,103,041
Securities at amortized cost				
Korea	11,153,735	92.64	1,060	11,152,675
United States	145,010	1.20	29	144,981
Others	740,977	6.16	300	740,677
	12,039,722	100.00	1,389	12,038,333
	62,638,169		2,677	62,635,492

[1] Expected credit loss of securities at fair value through other comprehensive income is ₩ 2,205 million

Details of The Group's credit risk of securities, excluding equity securities, and derivative financial instruments by country, as at December 31, 2017, are as follows:

(In millions of Korean won)	December 31, 2017	
	Amount	%
Financial assets held for trading		
Korea	7,021,083	88.87
Others	879,530	11.13
	7,900,613	100.00
Financial assets designated at fair value through profit or loss		
Korea	95,357	100.00
	95,357	100.00
Derivative financial assets		
Korea	1,266,612	48.57
United States	303,283	11.63
United Kingdom	52,781	2.02
France	303,883	11.65
Others	681,100	26.13
	2,607,659	100.00
Available-for-sale financial assets		
Korea	27,006,817	97.83
Others	598,944	2.17
	27,605,761	100.00
Held-to-maturity financial assets		
Korea	7,647,772	87.53
Others	1,089,378	12.47
	8,737,150	100.00
	46,946,540	

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 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.

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging, as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	March 31, 2018						
	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]	4,876,968	309,115	180,468	252,928	-	-	5,619,479
Financial assets at fair value through profit or loss	14,493,309	4,164	44,737	85,709	8,586	93,204	14,729,709
Derivatives held for trading[2]	2,245,825	-	-	-	-	-	2,245,825
Derivatives held for hedging[3]	-	(129)	720	4,598	9,175	40,293	54,657
Loans at amortized cost	-	20,974,262	28,802,379	92,968,235	64,036,276	90,707,651	297,488,803
Financial investments[4]	1,939,989	1,798,593	3,899,371	10,156,434	20,089,981	2,409,337	40,293,705
Financial assets at fair value through other comprehensive income	1,939,989	1,052,018	2,091,934	7,491,824	14,241,811	169,089	26,986,665
Securities at amortized cost	-	746,575	1,807,437	2,664,610	5,848,170	2,240,248	13,307,040
Other financial assets	291	5,560,168	-	1,034,580	-	-	6,595,039
	23,556,382	28,646,173	32,927,675	104,502,484	84,144,018	93,250,485	367,027,217
Financial liabilities							
Financial liabilities at fair value through profit or loss[2]	78,952	-	-	-	-	-	78,952
Derivatives held for trading[2]	2,285,332	-	-	-	-	-	2,285,332
Derivatives held for hedging[3]	-	(2,772)	1,643	(17,503)	3,510	33	(15,089)
Deposits[5]	125,506,055	11,779,998	25,997,650	85,653,802	11,189,650	2,790,615	262,917,770
Debts	5,784	5,690,826	2,325,962	5,175,505	4,600,421	51,186	17,849,684
Debentures	48,819	927,396	2,372,117	4,972,443	12,701,156	322,310	21,344,241
Other financial liabilities	-	12,743,344	765	72,662	6,843	209,298	13,032,912
	127,924,942	31,138,792	30,698,137	95,856,909	28,501,580	3,373,442	317,493,802
Off-balance sheet items							
Commitments[6]	77,099,461	-	-	-	-	-	77,099,461
Financial guarantee contracts[7]	2,973,866	-	-	-	-	-	2,973,866
	80,073,327	-	-	-	-	-	80,073,327

[1] The amounts of ₩ 12,653,661 million which are restricted amount due from the financial institutions as at March 31, 2018 are excluded.

[2] Financial liabilities 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 included in the 'On demand' category. However, the cash flows of the embedded derivatives which are separated from their host contracts are included in the cash flows of the host contracts.

[3] Cash flows of derivative instruments held for hedging are shown at net amounts of cash inflows and outflows by remaining contractual maturity.

[4] Equity securities designated as financial assets at fair value through other comprehensive income included in the 'On demand' category as most are available for sale at any time. However, in the case of equity investments which are restricted for sale, these will be classified to its respective maturity when the restriction on disposal is released.

[5] Deposits that are contractually repayable on demand or on short notice are included 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.

(In millions of Korean won)	March 31, 2017						
	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]	5,716,586	399,460	140,676	159,353	-	-	6,416,075
Financial assets held for trading[2]	8,313,373	-	-	-	-	-	8,313,373
Financial assets designated at fair value through profit or loss[2]	95,357	-	-	-	-	-	95,357
Derivatives held for trading[2]	2,509,930	-	-	-	-	-	2,509,930
Derivatives held for fair value hedging[3]	-	21,489	2,722	2,647	(5,017)	52,698	74,539
Loans	-	14,978,083	26,503,526	96,536,587	62,850,146	89,830,481	290,698,823
Available-for-sale financial assets[4]	6,056,352	1,486,656	2,111,060	9,396,840	15,050,896	791,200	34,893,004
Held-to-maturity financial assets	-	584,825	388,928	2,608,727	4,343,586	1,986,169	9,912,235
Other financial assets	291	4,604,953	-	1,042,830	-	-	5,648,074
	22,691,889	22,075,466	29,146,912	109,746,984	82,239,611	92,660,548	358,561,410
Financial liabilities							
Financial liabilities held for trading[2]	74,191	-	-	-	-	-	74,191
Derivatives held for trading[2]	2,558,786	-	-	-	-	-	2,558,786
Derivatives held for fair value hedging[3]	-	4,176	(4,715)	(19,705)	(7,144)	244	(27,144)
Deposits[5]	124,342,154	12,319,041	23,092,872	82,158,996	11,320,759	2,801,348	256,035,170
Debts	936	3,843,258	1,871,117	5,325,664	4,462,359	573,088	16,076,422
Debentures	40,655	540,471	1,218,396	5,425,995	11,524,310	1,536,151	20,285,978
Other financial liabilities	-	10,055,251	774	74,577	6,794	218,097	10,355,493
	127,016,722	26,762,197	26,178,444	92,965,527	27,307,078	5,128,928	305,358,896
Off-balance sheet items							
Commitments[6]	50,851,024	-	-	-	-	-	50,851,024
Financial guarantee contracts[7]	2,968,354	-	-	-	-	-	2,968,354
	53,819,378	-	-	-	-	-	53,819,378

[1] The amounts of ₩ 9,240,008 million which are restricted amount due from the financial institutions as at December 31, 2017 are excluded.

[2] Financial assets held for trading, financial assets designated at fair value through profit or loss, financial liabilities 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 included in the 'On demand' category. However, the cash flows of the embedded derivatives (e.g. conversion options and others) which are separated from their host contracts, are included in the cash flows of the host contracts.

[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 any time. However, in the case of equity investments which are restricted for sale, these will be classified to its respective maturity when the restriction on disposal is released.

[5] Deposits that are contractually repayable on demand or on short notice are included 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.

The remaining contractual cash flows of derivatives held for cash flow hedging as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash flow to be received of net settlement derivatives	253	1,393	2,709	3,325	-	7,680
Cash flow to be paid of net settlement derivatives	105	333	1,327	499	-	2,264

(In millions of Korean won)	December 31, 2017					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash flow to be received of net settlement derivatives	2	198	488	104	-	792
Cash flow to be paid of net settlement derivatives	94	536	1,444	5,852	-	7,926

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 internal 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 Asset-Liability Management Committee (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 Council monitors 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 EaR, 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 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 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 or 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.

The units that analyze total VaR can be categorized as follows: ① by product: interest rate products (debt securities in Korean won and foreign currencies, etc.), foreign currency products (spots, futures, and CRS, etc.), equity securities (equities, ELS, etc.), ② by risk factors: interest rates (government bond interest rate in Korean won and foreign currencies, corporate bond interest rate, etc.), exchange rates (USD/KRW, USD/JPY, etc.), and stock market indexes (KOSPI, S&P 500, etc.); the Group previously assesses VaR by product considering timeliness and efficiency.

However, as the amount of investment property in foreign currencies increases, products evaluated as multiple risk factors (i.e. for foreign currency bonds, ① by product: interest rate product ② by risk factor: interest rate and foreign exchange rate) had a tendency that dispersion effect is excessive due to not reflecting the actual hedge position by products in detail; to prevent which, the Group has decided to use VaR by risk factor from 2018.

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 at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	14,715	11,066	17,891	12,024
Stock price risk	2,318	1,253	3,388	3,386
Foreign exchange rate risk	5,840	5,033	7,083	5,792
Deduction of diversification effect				(6,204)
Total VaR	17,458	14,322	19,744	14,998

(In millions of Korean won)	**December 31, 2017**			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	22,682	14,313	42,155	23,758
Stock price risk	1,002	757	1,345	1,255
Foreign exchange rate risk	32,709	12,405	44,322	24,315
Deduction of diversification effect				(29,727)
Total VaR	23,312	16,498	30,247	19,601

The required equity capital using the standard method related to the positions which are not measured by VaR as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Interest rate risk	131,729	98,235
Stock price risk	8,827	1,646
Foreign exchange rate risk	1,246	810
	141,802	100,691

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 portfolios 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 portfolios 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 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 99.90% confidence level. The measurement results of risk as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Interest Rate VaR	367,077	350,178

4.4.5 Financial Assets and Liabilities in Foreign Currencies

Financial assets and liabilities in foreign currencies as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	2,287,497	278,523	335,572	28,890	851,535	339,881	4,121,898
Financial assets at fair value through profit or loss	1,635,336	48,755	131,411	8,844	-	36,172	1,860,518
Derivatives held for trading	102,811	21	118	-	223	124	103,297
Derivatives held for hedging	33,904	-	-	-	-	-	33,904
Loans at amortized cost	9,268,526	227,432	1,751,595	2,327	925,229	243,444	12,418,553
Financial assets at fair value through other comprehensive income	2,155,108	80,273	5,290	-	50,619	3,733	2,295,023
Financial assets at amortized cost	875,620	-	-	-	10,037	-	885,657
Other financial assets	2,121,925	301,273	339,933	65,260	352,853	169,181	3,350,425
	18,480,727	936,277	2,563,919	105,321	2,190,496	792,535	25,069,275
Financial liabilities							
Derivatives held for trading	68,385	-	40	-	11,290	-	79,715
Derivatives held for hedging	107,737	-	-	-	-	-	107,737
Deposits	9,106,325	579,802	476,807	44,811	1,122,505	569,732	11,899,982
Debts	7,026,993	38,838	89,422	22	-	21,418	7,176,693
Debentures	2,864,541	-	-	-	-	-	2,864,541
Other financial liabilities	2,441,308	72,126	630,521	50,964	354,681	69,300	3,618,900
	21,615,289	690,766	1,196,790	95,797	1,488,476	660,450	25,747,568
Off-balance sheet items	11,940,329	8,714	33,497	37	338,258	15,325	12,336,160

(In millions of Korean won)	December 31, 2017						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	1,509,387	250,933	131,100	19,779	815,014	236,570	2,962,783
Financial assets held for trading	1,044,336	83,716	81,394	8,922	-	18,145	1,236,513
Derivatives held for trading	78,769	441	52	-	96	202	79,560
Derivatives held for hedging	29,489	-	-	-	-	-	29,489
Loans	10,605,408	228,747	1,503,493	9,548	795,302	220,859	13,363,357
Available-for-sale financial assets	2,189,461	76,185	38,936	-	38,606	20,666	2,363,854
Held-to-maturity financial assets	1,084,474	-	-	-	4,905	-	1,089,379
Other financial assets	1,509,793	452,446	406,009	13,101	199,422	201,173	2,781,944
	18,051,117	1,092,468	2,160,984	51,350	1,853,345	697,615	23,906,879
Financial liabilities							
Derivatives held for trading	56,598	-	35	-	3,563	-	60,196
Derivatives held for hedging	49,962	-	-	-	-	-	49,962
Deposits	8,343,862	757,704	437,881	39,990	1,096,430	573,326	11,249,193
Debts	7,130,892	44,885	77,604	737	-	10,483	7,264,601
Debentures	2,940,251	-	-	-	-	-	2,940,251
Other financial liabilities	2,183,242	43,671	887,197	3,338	198,043	28,647	3,344,138
	20,704,807	846,260	1,402,717	44,065	1,298,036	612,456	24,908,341
Off-balance sheet items	11,304,709	705	2,404	-	257,940	12,823	11,578,581

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 timely feedback to management so that eventually mitigate operational risk of the Group. 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 Management

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%, a minimum Tier 1 ratio of 6.0% and a minimum Total Regulatory Capital of 8.0% as at March 31, 2018. Capital Conservation Buffer of 1.875% and Capital Requirement of Domestic Systemically Important Bank(D-SIB) of 0.75% are additionally applied. Therefore, the Group is required to maintain a capital ratio including a minimum capital ratio and additional capital requirements (a Common Equity Tier 1 Ratio of 7.125% (December 31, 2017 : 6.25%), a Tier 1 Ratio of 8.625% (December 31, 2017 : 7.75%), and a Total Regulatory Capital Ratio of 10.625% (December 31, 2017 : 9.75%)).

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. The Group complied with external capital adequacy requirements as at March 31, 2018 and December 31, 2017.

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 internal 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 internal capital is calculated by adding the stress testing results and other required items to the total internal capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates internal capital by risk type and business group. Each business group efficiently operates its capital within range of granted internal capital. The Risk Management Department of the Group monitors a management of the limit on internal 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 internal capital is expected to exceed the limits.

Details of the Group's capital adequacy calculation in line with Basel III requirements as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Equity Capital	26,353,013	25,913,677
Tier I Capital	24,829,350	24,040,408
Common Equity Tier 1 Capital	24,829,350	24,040,408
Tier II Capital	1,523,663	1,873,269
Risk-weighted assets:	166,671,293	161,824,686
Credit risk[1]	150,825,004	145,958,874
Market risk[2]	5,666,084	5,746,686
Operational risk[3]	10,180,205	10,119,126
Equity Capital (%):	15.81	16.01
Tier I Capital (%)	14.90	14.86
Common Equity Tier 1 Capital (%)	14.90	14.86

[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.

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.

Financial information by business segment as at and for the three-month period ended March 31, 2018 is as follows:

(In millions of Korean won)	2018				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	558,861	796,147	337,457	-	1,692,465
Segment operating revenues (expenses)	3,590	-	(12,864)	9,274	-
	562,451	796,147	324,593	9,274	1,692,465
Net interest income	640,054	707,847	117,389	6	1,465,296
Interest income	960,209	1,063,537	290,306	(4,676)	2,309,376
Interest expense	(320,155)	(355,690)	(172,917)	4,682	(844,080)
Net fee and commission income	67,897	179,122	101,758	(3,332)	345,445
Fee and commission income	86,938	199,261	126,908	(5,389)	407,718
Fee and commission expense	(19,041)	(20,139)	(25,150)	2,057	(62,273)
Net gains (losses) on financial assets/ liabilities at fair value through profit or loss	(11,787)	-	(12,438)	10,748	(13,477)
Net other operating income (expenses)	(133,713)	(90,822)	117,884	1,852	(104,799)
General and administrative expenses	(219,214)	(472,421)	(156,434)	632	(847,437)
Operating profit before provision for credit losses	343,237	323,726	168,159	9,906	845,028
Provision (Reversal) for credit losses	(6,845)	(32,276)	(65)	8,390	(30,796)
Operating profit	336,392	291,450	168,094	18,296	814,232
Share of profit of associates	-	-	11,474	-	11,474
Net other non-operating income (expense)	(178)	-	121,516	(8,596)	112,742
Segment profit before income tax expense	336,214	291,450	301,084	9,700	938,448
Income tax profit (expense)	(89,860)	(77,134)	(78,784)	(2,463)	(248,241)
Profit for the period	246,354	214,316	222,300	7,237	690,207
Profit attributable to the shareholder of the Parent Company	246,354	214,316	222,300	7,237	690,207
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	121,084,636	130,500,041	95,360,570	(5,304,055)	341,641,192
Total liabilities[1]	113,042,178	149,008,127	55,634,435	(1,266,827)	316,417,913

[1] Amounts before intra-group transaction adjustment.

Financial information by business segment for the three-month period ended March 31, 2017 is as follows:

(In millions of Korean won)	**2017**				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	450,245	639,760	531,200	-	1,621,205
Segment operating revenues(expenses)	12,871	-	(3,111)	(9,760)	-
	463,116	639,760	528,089	(9,760)	1,621,205
Net interest income	589,016	630,619	83,204	97	1,302,936
Interest income	831,788	947,830	234,570	(2,861)	2,011,327
Interest expense	(242,772)	(317,211)	(151,366)	2,958	(708,391)
Net fee and commission income	63,311	168,490	80,958	(3,653)	309,106
Fee and commission income	76,147	174,196	121,173	(4,956)	366,560
Fee and commission expense	(12,836)	(5,706)	(40,215)	1,303	(57,454)
Net losses on financial assets/ liabilities at fair value through profit or loss (under Korean IFRS 1039)	(1,755)	-	(39,902)	-	(41,657)
Net other operating income(expenses)	(187,456)	(159,349)	403,829	(6,204)	50,820
General and administrative expenses	(194,653)	(435,260)	(210,249)	642	(839,520)
Operating profit before provision for credit losses	268,463	204,500	317,840	(9,118)	781,685
Provision (Reversal) for credit losses	(118,153)	(32,847)	(231)	4,211	(147,020)
Operating profit	150,310	171,653	317,609	(4,907)	634,665
Share of profit of associates	-	-	9,599	-	9,599
Net other non-operating income	2,023	-	173,150	(147,284)	27,889
Segment profit before income tax expense	152,333	171,653	500,358	(152,191)	672,153
Income tax profit (expense)	2,652	3,206	7,565	(22,115)	(8,692)
Profit for the period	154,985	174,859	507,923	(174,306)	663,461
Profit attributable to the shareholder of the Parent Company	154,985	174,859	507,923	(174,306)	663,461
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	117,904,269	129,438,168	86,034,586	(3,611,096)	329,765,927
Total liabilities[1]	102,224,405	147,870,309	55,552,078	(1,204,299)	304,442,493

[1] Amounts before intra-group transaction adjustment as at December 31, 2017.

5.2 Services and Geographical Segments

5.2.1 Services Information

Operating revenues from external customers by services for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Corporate banking service	558,861	450,245
Retail banking service	796,147	639,760
Other service	337,457	531,200
	1,692,465	1,621,205

5.2.2 Geographical Information

Geographical operating revenues from external customers for the three-month periods ended March 31, 2018 and 2017, and major non-current assets as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	2018		**2017**	
	Revenues from external customers	**Major non-current assets**	**Revenues from external customers**	**Major non-current assets**
Domestic	1,668,617	3,540,123	1,602,906	3,562,722
United States	2,894	141	2,712	161
New Zealand	1,523	50	1,423	57
China	11,295	3,824	7,417	3,432
Japan	423	1,391	1,334	1,377
Myanmar	520	585	1	653
Vietnam	1,740	223	1,249	228
Cambodia	2,113	1,646	1,718	1,753
United Kingdom	3,340	451	2,445	319
Intra-group adjustment	-	-	-	-
	1,692,465	3,548,434	1,621,205	3,570,702

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018	
	Carrying amount	**Fair value**
Financial assets		
Cash and due from financial institutions	18,319,780	18,319,961
Financial assets at fair value through profit or loss	14,628,169	14,628,169
Debt securities	14,225,321	14,225,321
Equity securities	193,587	193,587
Loans at amortized cost	134,860	134,860
Others	74,401	74,401
Derivatives held for trading	2,245,825	2,245,825
Derivatives held for hedging	74,921	74,921
Loans at amortized cost	256,879,537	256,538,232
Financial assets at fair value through other comprehensive income	26,043,030	26,043,030
Debt securities	24,103,041	24,103,041
Equity securities	1,939,989	1,939,989
Securities at amortized cost	12,038,333	12,039,964
Others	7,300,465	7,300,465
	337,530,060	337,190,567
Financial liabilities		
Financial liabilities at fair value through profit or loss	78,952	78,952
Derivatives held for trading	2,285,493	2,285,493
Derivatives held for hedging	107,858	107,858
Deposits	259,076,872	259,628,074
Debts	17,554,718	17,547,589
Debentures	20,306,338	20,546,476
Other financial liabilities	15,492,027	15,492,030
	314,902,258	315,686,472

(In millions of Korean won)	**December 31, 2017**	
	Carrying amount	**Fair value**
Financial assets		
Cash and due from financial institutions	15,646,318	15,646,654
Financial assets held for trading	8,313,373	8,313,373
Debt securities	7,900,613	7,900,613
Equity securities	338,904	338,904
Others	73,856	73,856
Financial assets designated at fair value through profit or loss	95,357	95,357
Derivative-linked securities	95,357	95,357
Derivatives held for trading	2,527,190	2,527,190
Derivatives held for hedging	80,469	80,469
Loans	251,710,605	251,173,805
Available-for-sale financial assets	32,078,524	32,078,524
Debt securities	27,605,761	27,605,761
Equity securities	4,472,263	4,472,263
Others	500	500
Held-to-maturity financial assets	8,737,150	8,774,918
Other financial assets	6,341,463	6,341,463
	325,530,449	325,031,753
Financial liabilities		
Financial liabilities held for trading	74,191	74,191
Derivatives held for trading	2,558,788	2,558,788
Derivatives held for hedging	50,032	50,032
Deposits	252,478,931	252,901,505
Debts	15,810,753	15,808,759
Debentures	19,183,798	19,409,286
Other financial liabilities	12,733,354	12,733,360
	302,889,847	303,535,921

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.

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	The fair value of loans is determined through DCF Model and the use of independent third-party pricing services. Fair value measured by DCF Model is determined by discounting the expected cash flows, which are contractual cash flows adjusted by the expected prepayment rate, at appropriate discount rate. Fair value of the other loans that is not determined through DCF model is determined by independent third-party pricing services using Tree Model.
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, the Monte Carlo Simulation and the Tree model or independent third-party valuation service. For OTC derivatives, the credit risk of counterparty and the Group's own credit risk are applied through Credit Valuation Adjustment(CVA).
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 (DCF Model) 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.

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 statement of financial position are appropriate. However, the fair values of the financial instruments recognized in the statement 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.

Fair value hierarchy of financial assets and liabilities at fair value in the statements of financial position

The fair value hierarchy of financial assets and liabilities at fair value in the statements of financial position as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	March 31, 2018			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Debt securities	3,022,538	9,931,480	1,271,303	14,225,321
Equity securities	155,309	-	38,278	193,587
Loans	-	-	134,860	134,860
Others	74,401	-	-	74,401
	3,252,248	9,931,480	1,444,441	14,628,169
Derivatives held for trading	-	2,245,724	101	2,245,825
Derivatives held for hedging	-	74,410	511	74,921
Financial assets through other comprehensive income				
Debt securities	7,428,762	16,674,279	-	24,103,041
Equity securities	1,177,454	-	762,535	1,939,989
	8,606,216	16,674,279	762,535	26,043,030
	11,858,464	28,925,893	2,207,588	42,991,945
Financial liabilities				
Financial liabilities at fair value through profit or loss	78,952	-	-	78,952
Derivatives held for trading	-	2,284,552	941	2,285,493
Derivatives held for hedging	-	107,858	-	107,858
	78,952	2,392,410	941	2,472,303

(In millions of Korean won)	**December 31, 2017**			
	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading				
Debt securities	2,276,513	5,624,100	-	7,900,613
Equity securities	299,564	39,340	-	338,904
Others	73,856	-	-	73,856
	2,649,933	5,663,440	-	8,313,373
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	95,357	95,357
	-	-	95,357	95,357
Derivatives held for trading	-	2,509,871	17,319	2,527,190
Derivatives held for hedging	-	79,694	775	80,469
Available-for-sale financial assets				
Debt securities	9,384,598	18,221,163	-	27,605,761
Equity securities[1]	1,303,011	1,237,456	1,931,796	4,472,263
Others	-	500	-	500
	10,687,609	19,459,119	1,931,796	32,078,524
	13,337,542	27,712,124	2,045,247	43,094,913
Financial liabilities				
Financial liabilities held for trading	74,191	-	-	74,191
Derivatives held for trading	-	2,557,895	893	2,558,788
Derivatives held for hedging	-	49,962	70	50,032
	74,191	2,607,857	963	2,683,011

[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 ₩ 104,148 million as at December 31, 2017. 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, an online bank, 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.

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 at fair value in the statements of financial position and classified as Level 2 as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	Fair value March 31, 2018	Valuation techniques	Inputs
Financial assets			
Financial assets at fair value through profit or loss			
Debt securities	9,931,480	DCF Model, Net Asset Value	Discount rate, Underlying asset Index
	9,931,480		
Derivatives held for trading	2,245,724	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate, Stock price and others
Derivatives held for hedging	74,410	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and others
Financial assets at fair value through other comprehensive income			
Debt securities	16,674,279	DCF Model	Discount rate
	16,674,279		
	28,925,893		
Financial liabilities			
Derivatives held for trading	2,284,552	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate, Stock price and others
Derivatives held for hedging	107,858	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and others
	2,392,410		

(In millions of Korean won)

	Fair value December 31, 2017	Valuation techniques	Inputs
Financial assets			
Financial assets held for trading			
Debt securities	5,624,100	DCF Model	Discount rate
Equity securities	39,340	Net Asset Value	Underlying asset Index
	5,663,440		
Derivatives held for trading	2,509,871	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate, Stock price and others
Derivatives held for hedging	79,694	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and others
Available-for-sale financial assets			
Debt securities	18,221,163	DCF Model	Discount rate
Equity securities	1,237,456	Net Asset Value	Underlying asset Index
Others	500	DCF Model	Discount rate
	19,459,119		
	27,712,124		
Financial liabilities			
Derivatives held for trading	2,557,895	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate, Stock price and others
Derivatives held for hedging	49,962	DCF Model, Closed Form, FDM	Discount rate, Volatility, Foreign exchange rate and others
	2,607,857		

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 at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	March 31, 2018			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	2,722,796	14,672,624	924,541	18,319,961
Loans at amortized cost	-	-	256,538,232	256,538,232
Securities at amortized cost	3,169,924	8,870,040	-	12,039,964
Other financial assets[2]	-	-	7,300,465	7,300,465
	5,892,720	23,542,664	264,763,238	294,198,622
Financial liabilities				
Deposits[1]	-	125,361,195	134,266,879	259,628,074
Debts[3]	-	33,917	17,513,672	17,547,589
Debentures	-	20,546,476	-	20,546,476
Other financial liabilities[4]	-	-	15,492,030	15,492,030
	-	145,941,588	167,272,581	313,214,169

[1] The amounts included in Level 2 are the carrying amounts which are reasonable approximation of the fair values.
[2] The ₩ 7,300,465 million of amounts of other financial assets included in Level 3 are the carrying amounts which are reasonable approximation of the fair values as at March 31, 2018.
[3] The ₩ 33,917 million of debts included in Level 2 is the carrying amounts which are reasonable approximation of fair values as at March 31, 2018.
[4] The ₩ 15,490,992 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as at March 31, 2018.

(In millions of Korean won)	December 31, 2017			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	2,597,423	12,223,212	826,019	15,646,654
Loans	-	-	251,173,805	251,173,805
Held-to-maturity financial assets	1,197,738	7,577,180	-	8,774,918
Other financial assets[2]	-	-	6,341,463	6,341,463
	3,795,161	19,800,392	258,341,287	281,936,840
Financial liabilities				
Deposits[1]	-	122,498,859	130,402,646	252,901,505
Debts[1]	-	19,820	15,788,939	15,808,759
Debentures	-	19,409,286	-	19,409,286
Other financial liabilities[3]	-	-	12,733,360	12,733,360
	-	141,927,965	158,924,945	300,852,910

[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 at December 31, 2017.

[3] The ₩12,731,712 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as at December 31, 2017.

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 at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018		
	Fair value	**Valuation technique**	**Inputs**
Financial assets			
Securities at amortized cost	8,870,040	DCF Model	Discount rate
Financial liabilities			
Debentures	20,546,476	DCF Model	Discount rate

(In millions of Korean won)	December 31, 2017		
	Fair value	**Valuation technique**	**Inputs**
Financial assets			
Held-to-maturity financial assets	7,577,180	DCF Model	Discount rate
Financial liabilities			
Debentures	19,409,286	DCF Model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Fair value	**Valuation technique**	**Inputs**	**Unobservable inputs**
Financial assets				
Cash and due from financial institutions	924,541	DCF Model	Credit spread, Other spread, Interest rates	Credit spread, Other spread
Loans at amortized cost	256,538,232	DCF Model	Credit spread, Other spread, Prepayment rate, Interest rate	Credit spread, Other spread, Prepayment rate
	257,462,773			
Financial liabilities				
Deposits	134,266,879	DCF Model	Other spread, Prepayment rate, Interest rates	Other spread, Prepayment rate
Debts	17,513,672	DCF Model	Other spread, Interest rates	Other spread
Other financial liabilities	1,038	DCF Model	Other spread, Interest rates	Other spread
	151,781,589			

(In millions of Korean won)	December 31, 2017			
	Fair value	**Valuation technique**	**Inputs**	**Unobservable inputs**
Financial assets				
Cash and due from financial institutions	826,019	DCF Model	Credit spread, Other spread, Interest rates	Credit spread, Other spread
Loans	251,173,805	DCF Model	Credit spread, Other spread, Prepayment rate, Interest rates	Credit spread, Other spread, Prepayment rate
	251,999,824			
Financial liabilities				
Deposits	130,402,646	DCF Model	Other spread, Prepayment rate, Interest rates	Other spread, Prepayment rate
Debts	15,788,939	DCF Model	Other spread, Interest rates	Other spread
Other financial liabilities	1,648	DCF Model	Other spread, Interest rates	Other spread
	146,193,233			

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 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 Inputs in Market

Changes in Level 3 of the fair value hierarchy for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)

	2018				
	Financial assets at fair value through profit or loss		**Financial investments**	**Net derivatives financial instruments**	
	Securities at fair value through profit or loss	**Loans at fair value through profit or loss**	**Equity securities at fair value through other comprehensive income**	**Derivatives held for trading**	**Derivatives held for hedging**
Beginning balance[1]	1,277,304	132,722	750,036	(771)	704
Total gains or losses					
- Profit or loss	(3,244)	1,138	-	(44)	118
- Other comprehensive income	-	-	9,782	-	-
Purchases	114,576	6,000	3,197	-	-
Sales	(79,055)	(5,000)	(480)	-	-
Settlements	-	-	-	(25)	(311)
Ending balance	1,309,581	134,860	762,535	(840)	511

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)

	2017			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives financial instruments	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	129,535	1,845,455	9,825	1,277
Total gains or losses				
- Profit or loss	1,682	1,470	(252)	113
- Other comprehensive-Income (expenses)	-	(3,906)	-	-
Purchases	55,000	101,134	-	-
Sales	-	(49,783)	-	-
Settlements	(55,409)	-	-	-
Transfers into Level 3[1]	-	1,142	-	-
Ending balance	130,808	1,895,512	9,573	1,390

[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 three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)

	2018		
	Net losses from financial instruments at fair value through profit or loss	Other operating income	Net interest income
Total gains or losses included in profit or loss for the period	(2,308)	118	158
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	(2,617)	61	158

(In millions of Korean won)

	2017	
	Net gains on financial assets/liabilities at fair value through profit or loss (under Korean IFRS 1039)	Other operating income
Total gains or losses included in profit or loss for the period	1,430	1,583
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	1,955	87

6.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as at March 31, 2018, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets at fair value through profit or loss						
Debt securities	1,271,303	Monte Carlo Simulation	Underlying asset Index, interest rate, dividend rate, volatilities and correlation of underlying asset Index	Volatilities of real estate price	17.84 ~ 26.03	Higher the volatility, higher the fair value
				Correlation of underlying asset Index	13.25 ~ 60.78	Higher the correlation, higher the fair value
Equity securities	38,278	DCF Model, Comparable Company Analysis, Adjusted discount rate method	Growth rate, discount rate	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	1.98 ~ 20.51	Lower the discount rate, higher the fair value
Loans	134,860	Tree Model	Stock price, volatility of the stock price	Stock price, volatility of the stock price	12.16 ~ 39.43	Higher the volatility, higher the fair value
Derivatives held for trading						
Stock and index	65	Tree Model	Price and volatility of the underlying asset, interest rate, dividend rate	Volatility of the underlying asset	24.55	Higher the volatility, higher the fair value fluctuation
Interest rate	36	DCF Model	Interest rate, loss given default	Loss given default	0.37	Higher the loss given default, lower the fair value
Derivatives held for hedging						
Interest rate	511	DCF Model, Closed Form, Monte Carlo Simulation, FDM	Price and volatility of the underlying asset, interest rate	Volatility of the underlying asset	2.47	Higher the volatility, higher the fair value fluctuation
Financial assets at fair value through other comprehensive income						
Equity securities	762,535	DCF Model, Comparable Company Analysis, Adjusted discount rate method	Growth rate, discount rate	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	5.49 ~ 17.12	Lower the discount rate, higher the fair value
	2,207,588					
Financial liabilities						
Derivatives held for trading						
Others	941	Monte Carlo Simulation, DCF Model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate, discount rate	Volatility of the stock price	18.69	Higher the volatility, higher the fair value
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value

				Discount rate	2.53 ~ 2.65	Higher the discount rate, lower the fair value
	941					

Information about fair value measurements using unobservable inputs as at December 31, 2017, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	95,357	MonteCarlo Simulation	Price of the underlying asset, interest rate, dividend yield, volatility and correlation of the underlying asset	Volatility of the underlying asset	15.93 ~ 18.35	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	20.18 ~ 57.10	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	307	Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	12.15 ~ 17.12	Higher the volatility higher the fair value fluctuation
Interest rate	59	DCF model	Interest rate, loss given default	Loss given default	0.56	Higher the loss rate, lower the fair value
Others	16,953	MonteCarlo Simulation, Tree model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	12.16 ~ 29.72	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.47	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest rate	775	DCF model, Closed Form, Monte Carlo Simulation, FDM	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.02	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,931,796	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	1.98 ~ 20.51	Lower the discount rate, higher the fair value
	2,045,247					
Financial liabilities						
Derivatives held for trading						
Others	893	MonteCarlo Simulation, DCF Model	Stock price, interest rate, volatility of the stock price, volatility of the	Volatility of the stock price	15.84	Higher the volatility, higher the fair value fluctuation
				Volatility of the	0.47	Higher the volatility,

			interest rate, discount rate	interest rate		higher the fair value fluctuation
				Discount rate	2.57 ~ 2.69	Higher the discount rate, lower the fair value
Derivatives held for hedging						
Interest rate	70	DCF model, Closed Form, FDM, MonteCarlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	2.64	Higher the volatility, higher the fair value fluctuation
	963					

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 debt securities, loans, 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 beneficiary certificates whose fair value changes are recognized in profit or loss or other comprehensive income or loss.

Sensitivity analysis by type of instrument as a result of varying input parameters are as follows:

	March 31, 2018	
(In millions of Korean won)	**Recognition in profit or loss**	
	Favorable changes	**Unfavorable changes**
Financial assets		
Financial assets at fair value through profit or loss		
Debt securities[1, 4]	1,685	(291)
Equity securities [3]	5,213	(3,176)
Loans	71	(53)
Derivatives held for trading[2]	1	(1)
Financial assets at fair value through other comprehensive income		
Equity securities	-	-
	6,970	(3,521)
Financial liabilities		
Derivatives held for trading[2]	82	(96)
Derivatives held for hedging[2]	-	-
	82	(96)

	March 31, 2018	
(In millions of Korean won)	Other comprehensive income or loss	
	Favorable changes	Unfavorable changes
Financial assets		
Financial assets at fair value through other comprehensive income		
Equity securities	95,875	(51,832)

	December 31, 2017	
(In millions of Korean won)	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]	54	(112)
Derivatives held for trading[2]	112	(94)
Available-for-sale financial assets[3, 4]	-	-
	166	(206)
Financial liabilities		
Derivatives held for trading[2]	86	(92)
Derivatives held for hedging[2]	2	(2)
	88	(94)

	December 31, 2017	
(In millions of Korean won)	Other comprehensive income or loss	
	Favorable changes	Unfavorable changes
Financial assets		
Available-for-sale financial assets[3]	100,653	(54,892)

[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 ± 10%.

[2] For derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the price of the underlying asset, the volatility of the stock price, and the volatility of interest rate by ± 10%, the loss given default ratio by ± 1%, or discount rate by ± 1%.

[3] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as discount rate (-1~1%) and growth rate (0~0.5%).

[4] For beneficiary certificates, the sensitivity of changes in inputs cannot be analyzed as a practical expedient. There were no significant inter-relationships between unobservable inputs that materially affect fair values.

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.

The aggregate deferred differences yet to be recognized in profit or loss at the beginning and end of the periods and changes in the balances of these differences are as follows:

(In millions of Korean won)	**2018**	**2017**
Balance at the beginning of the period (A)	(4,054)	(3,494)
New transactions (B)	-	-
Amounts recognized in profit or loss during the period (C= a+b)	280	199
a. Amortization	280	199
b. Settlement	-	-
Balance at the end of the period (A+B+C)	(3,774)	(3,295)

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 at March 31, 2018, are as follows:

(In millions of Korean won)	**March 31, 2018**				
	Financial instruments at fair value through profit or loss	**Financial instruments at fair value through other comprehensive income**	**Financial instruments at amortized cost**	**Derivatives held for hedging**	**Total**
Financial assets					
Cash and due from financial institutions	-	-	18,319,780	-	18,319,780
Financial assets at fair value through profit or loss	14,628,169	-	-	-	14,628,169
Derivatives	2,245,825	-	-	74,921	2,320,746
Loans at amortized cost	-	-	256,879,537	-	256,879,537
Financial investments	-	26,043,030	12,038,333	-	38,081,363
Other financial assets	-	-	7,300,465	-	7,300,465
	16,873,994	26,043,030	294,538,115	74,921	337,530,060

(In millions of Korean won)	March 31, 2018			
	Financial instruments at fair value through profit or loss	**Financial instruments at amortized cost**	**Derivatives held for hedging**	**Total**
Financial liabilities				
Financial liabilities at fair value through profit or loss	78,952	-	-	78,952
Derivatives	2,285,493	-	107,858	2,393,351
Deposits	-	259,076,872	-	259,076,872
Debts	-	17,554,718	-	17,554,718
Debentures	-	20,306,338	-	20,306,338
Other financial liabilities	-	15,492,027	-	15,492,027
	2,364,445	312,429,955	107,858	314,902,258

The carrying amounts of financial assets and liabilities by category as at December 31, 2017, are as follows:

(In millions of Korean won)	December 31, 2017						
	Financial assets at fair value through profit or loss (under Korean IFRS 1039)						
	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	-	-	15,646,318	-	-	-	15,646,318
Financial assets at fair value through profit or loss	8,313,373	95,357	-	-	-	-	8,408,730
Derivatives	2,527,190	-	-	-	-	80,469	2,607,659
Loans	-	-	251,710,605	-	-	-	251,710,605
Financial investments	-	-	-	32,078,524	8,737,150	-	40,815,674
Other financial assets	-	-	6,341,463	-	-	-	6,341,463
	10,840,563	95,357	273,698,386	32,078,524	8,737,150	80,469	325,530,449

(In millions of Korean won)	December 31, 2017			
	Financial liabilities at fair value through profit or loss	Financial liability at	Derivatives	
	Held for trading	amortized cost	held for hedging	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss	74,191	-	-	74,191
Derivatives	2,558,788	-	50,032	2,608,820
Deposits	-	252,478,931	-	252,478,931
Debts	-	15,810,753	-	15,810,753
Debentures	-	19,183,798	-	19,183,798
Other financial liabilities	-	12,733,354	-	12,733,354
	2,632,979	300,206,836	50,032	302,889,847

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 at March 31, 2018 and December 31, 2017, are as follows :

(In millions of Korean won)		March 31, 2018		
	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
Discovery 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Financial assets at fair value through profit or loss	5,751	5,751
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Financial assets at fair value through profit or loss	5,044	5,044
FK 1411 ABS Ltd.	Subordinated debt	Financial assets at fair value through profit or loss	9,221	9,221
AP 3B ABS Ltd.	Subordinated debt	Financial assets at fair value through profit or loss	7,582	7,582
	Senior debt	Financial assets at amortized cost	675	674
AP 4D ABS Ltd.	Subordinated debt	Financial assets at fair value through profit or loss	14,151	14,151
			42,424	42,423

[1] 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 ₩4,315 million as at March 31, 2018.

(In millions of Korean won)		December 31, 2017		
	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**
Discovery 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	6,022	6,022
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	5,339	5,339
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	9,601	9,601
AP 3B ABS Ltd.	Subordinated debt	Available-for-sale financial assets	9,902	9,902
	Senior debt	Loans and receivables	2,248	2,251
AP 4D ABS Ltd.1	Subordinated debt	Available-for-sale financial assets	14,160	14,160
			47,272	47,275

[1] 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 ₩ 2,989 million as at December 31, 2017.

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 at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	591,832	562,966
Loaned securities	399,237	-
Government and public bonds	399,237	-
	991,069	562,966

(In millions of Korean won)	December 31, 2017	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	740,618	700,466
Loaned securities	109,379	-
Government and public bonds	109,379	-
	849,997	700,466

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. Account receivables and account payables related to listed securities and derivatives or OTC derivatives settled by the central counterparty are included in the other financial instruments. As the Group has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, the net amounts of the other financial instruments balances are presented in the statement of financial position.

Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018					
				Related amounts not offset in the statement of financial position		
	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**	**Financial instruments**	**Cash collateral**	**Net amount**
Derivatives held for trading	2,245,760	-	2,245,760	(1,619,681)	(128,474)	497,605
Derivatives held for hedging	74,921	-	74,921	(31,131)	(19,481)	24,309
Receivable spot exchange	4,577,387	-	4,577,387	(4,575,678)	-	1,709
Reverse repurchase	4,725,000	-	4,725,000	(4,725,000)	-	-
Domestic exchange settlement debits	22,372,963	(21,917,112)	455,851	-	-	455,851
Other financial instruments	215,171	(214,629)	542	-	-	542
	34,211,202	(22,131,741)	12,079,461	(10,951,490)	(147,955)	980,016

(In millions of Korean won)	December 31, 2017					
	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	
Derivatives held for trading	2,509,930	-	2,509,930	(1,888,558)	(191,349)	430,023
Derivatives held for hedging	80,469	-	80,469	(17,840)	(21,830)	40,799
Receivable spot exchange	3,447,424	-	3,447,424	(3,447,048)	-	376
Reverse repurchase	2,579,900	-	2,579,900	(2,579,900)	-	-
Domestic exchange settlement debits	30,904,611	(29,959,914)	944,697	-	-	944,697
Other financial instruments	1,580	(1,578)	2	-	-	2
	39,523,914	(29,961,492)	9,562,422	(7,933,346)	(213,179)	1,415,897

Details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March31, 2018					
	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	
Derivatives held for trading	2,284,390	-	2,284,390	(1,065,582)	(61,466)	1,157,342
Derivatives held for hedging	107,858	-	107,858	(7,590)	(21,093)	79,175
Payable spot exchange	4,577,593	-	4,577,593	(4,575,678)	-	1,915
Repurchase[1]	739,651	-	739,651	(625,604)	-	114,047
Domestic exchange settlement credits	22,602,658	(21,917,112)	685,546	(685,546)	-	-
Other financial instruments	274,492	(214,629)	59,863	(518)	-	59,345
	30,586,642	(22,131,741)	8,454,901	(6,960,518)	(82,559)	1,411,824

(In millions of Korean won)	December 31, 2017					
				Related amounts not offset in the statement of financial position		
	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	Financial instruments	Cash collateral pledged	Net amount
Derivatives held for trading	2,557,702	-	2,557,702	(1,051,514)	(32,585)	1,473,603
Derivatives held for hedging	50,032	-	50,032	(7,287)	(9,139)	33,606
Payable spot exchange	3,448,848	-	3,448,848	(3,447,048)	-	1,800
Repurchase[1]	700,466	-	700,466	(700,466)	-	-
Domestic exchange settlement credits	29,999,359	(29,959,914)	39,445	(39,445)	-	-
Other financial instruments	1,871	(1,578)	293	(194)	-	99
	36,758,278	(29,961,492)	6,796,786	(5,245,954)	(41,724)	1,509,108

[1] Includes repurchase agreements sold to customers.

7. Due from Financial Institutions

Details of due from financial institutions as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		Financial Institution	Interest rate (%)	March 31, 2018	December 31, 2017
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00 ~ 1.54	11,886,295	8,511,295
	Due from banking institutions	KEB Hana Bank and others	0.00 ~ 2.60	97,536	111,396
	Due from others	NH Investment & Securities Co., Ltd. and others	0.00 ~ 1.00	15,850	1,917,633
				11,999,681	10,540,324
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Wells Fargo Bank, N.A. and others	-	2,660,633	1,670,111
	Time deposits in foreign currencies	Bank of Shanghai, Beijing Branch and others	0.20 ~ 9.00	752,007	711,347
	Due from others	Societe Generale and others	-	185,950	127,111
				3,598,590	2,508,569
				15,598,271	13,048,893

[1] Before netting of allowance

Restricted due from financial institutions as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		Financial Institution	March 31, 2018	December 31, 2017	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	11,886,295	8,511,295	Bank of Korea Act
	Due from others	NH Investment & Securities Co.,Ltd. and others	15,850	9,564	Derivatives margin account
			11,902,145	8,520,859	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	589,661	619,130	Bank of Korea Act and others
	Time deposits in foreign currencies	China Construction Bank NY Branch	21,330	21,428	New York State Banking Law
	Due from others	Societe Generale and others	140,286	78,396	Derivatives margin account
			751,277	718,954	
			12,653,422	9,239,813	

Changes in the allowances for due from financial institutions losses

Changes in the allowances for due from financial institutions losses for the three-month period ended March 31, 2018, are as follows:

(In millions of Korean won)	2018		
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses	
		Non-impaired	Impaired
Beginning[1]	1,530	-	-
Transfer between stages	-	-	-
Provision (reversal) for loan losses	(283)	-	-
Others (Change of currencies and others)	41	-	-
Ending	1,288	-	-

[1] Restated based on Korean IFRS 1109.

8. Assets Pledged as Collaterals

Details of assets pledged as collaterals as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		March 31, 2018	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Securities at fair value through profit or loss	Korea Securities Depository and others	45,159	Repurchase agreements
	The Korea Securities Finance Corporarion and others	433,704	Securities lending and borrowing
	Samsung Futures Inc. and others	14,571	Derivatives transactions
	Others	14,627	Others
		508,061	
Securities at fair value through other comprehensive income	Bank of Korea	652,011	Borrowings from Bank of Korea
	Bank of Korea	771,512	Settlement risk of Bank of Korea
	Deutsche Bank.AG and others	142,274	Derivatives transactions
	Others	19,998	Others
		1,585,795	
Securities at amortized cost	Korea Securities Depository and others	581,211	Repurchase agreements
	Bank of Korea	1,315,840	Borrowings from Bank of Korea
	Bank of Korea	1,183,883	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others	238,566	Derivatives transactions
	Others	133,307	Others
		3,452,807	
Mortgage loans	Others	4,673,043	Covered Bond
Building/Land	Samsung Life Insurance Co., Ltd. and others	318,345	Others
		10,538,051	

(In millions of Korean won)		December 31, 2017	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	KB Securities Co., Ltd.	29,508	Derivatives transactions
		29,508	
Available-for-sale financial assets	Mizuho Bank, Ltd. and others	740,132	Repurchase agreements
	Bank of Korea	651,284	Borrowings from Bank of Korea
	Bank of Korea	750,254	Settlement risk of Bank of Korea
	Deutsche Bank. AG	58,524	Derivatives transactions
	Others	19,985	Others
		2,220,179	
Held-to-maturity financial assets	Korea Securities Depository and others	35,026	Repurchase agreements
	Bank of Korea	1,326,558	Borrowings from Bank of Korea
	Bank of Korea	1,204,990	Settlement risk of Bank of Korea
	KB Securities Co., Ltd. and others	236,681	Derivatives transactions
	Others	133,389	Others
		2,936,644	
Mortgage loans	Others	4,950,490	Covered Bond
Building / Land	Samsung Life Insurance Co., Ltd. and others	319,064	Others
		10,455,885	

The fair value of collateral available to sell or repledge regardless of debtor's default as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	March 31, 2018	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	4,918,354	-

(In millions of Korean won)	December 31, 2017	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	2,640,078	-

9. Derivative Financial Instruments and Hedge Accounting

The Group engages in derivative trading activities to hedge the interest rate and foreign currency risk exposures arising from the Group's own assets and liabilities.
In particular, the Group applies fair value hedge accounting to interest rate swaps that 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 foreign currencies, debt securities at fair value through other comprehensive income in Korean won and debt securities at fair value through other comprehensive income in foreign currencies. Also, the Group applies cash flow hedge accounting to interest rate swaps that hedge cash flow risk of floating rate notes and borrowings in foreign currencies. In addition, the Group applies net investment hedge accounting to designating debentures in foreign currencies and spot components of the currency forward as hedging instruments that hedge foreign exchange risks on net investments in foreign operations.

Details of derivative financial instruments for trading as at March 31, 2018 and December 31, 2017, are as follows:

	March 31, 2018		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	2,059,748	-	-
Swaps	112,798,442	392,188	302,025
Options	13,259,000	130,468	234,627
	128,117,190	522,656	536,652
Currency			
Forwards	63,154,190	862,149	926,288
Futures[1]	376,453	-	-
Swaps	28,483,501	857,182	812,387
Options	1,516,296	3,773	8,615
	93,530,440	1,723,104	1,747,290
Stock and index			
Futures[1]	18,430	-	-
Options	59,411	65	610
	77,841	65	610
Others	714,200	-	941
	222,439,671	2,245,825	2,285,493

(In millions of Korean won)	December 31, 2017		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Futures[1]	1,194,766	-	-
Swaps	107,934,385	389,926	328,072
Options	12,615,000	130,013	226,931
	121,744,151	519,939	555,003
Currency			
Forwards	62,354,931	1,142,066	1,228,052
Futures[1]	440,903	-	-
Swaps	28,386,919	843,854	767,344
Options	695,848	4,071	6,998
	91,878,601	1,989,991	2,002,394
Stock and index			
Futures[1]	23,458	-	-
Options	84,742	307	498
	108,200	307	498
Others	1,073,316	16,953	893
	214,804,268	2,527,190	2,558,788

[1] Gains or losses arising from daily mark-to-market futures are reflected in the margin accounts.

The average hedge ratio for future nominal cash flows by type of hedge accounting as at March 31, 2018, are as follows:

(In millions of Korean won)

	March 31, 2018						
	1 year	**2 years**	**3 years**	**4 years**	**5 years**	**Over 5 years**	**Total**
Fair value hedge							
The nominal amount of the hedged item	51,995	77,993	1,217,943	215,044	440,922	957,784	2,961,681
The nominal amount of the hedging instrument	51,995	77,993	1,217,943	205,044	459,454	949,252	2,961,681
Average ratio of hedging	100.00	100.00	100.00	95.35	104.20	99.11	100.00
Cash flow hedge							
The nominal amount of the hedged item	1,590,465	309,285	-	-	479,925	-	2,379,675
The nominal amount of the hedging instrument	1,590,465	309,285	-	-	479,925	-	2,379,675
Average ratio of hedging	100.00	100.00	-	-	100.00	-	100.00
Net investment in a foreign operation hedges							
The nominal amount of the hedged item	491,657	101,318	-	-	-	-	592,975
The nominal amount of the hedging instrument	491,657	101,318	-	-	-	-	592,975
Average ratio of hedging	100.00	100.00	-	-	-	-	100.00

Fair value hedge

Details of fair value hedged items as at March 31, 2018, are as follows:

(In millions of Korean won)		March 31, 2018				
		Carrying amount		Accumulated adjusted amount		Changes in the fair value
		Assets	Liabilities	Assets	Liabilities	
Interest rate	*Debt securities in Korean won*	457,815	-	(6,185)	-	(502)
	Debt securities in foreign currencies	526,328	-	(46,655)	-	(6,611)
	Deposits in foreign currencies	-	752,389	-	(100,811)	49,778
	Debts in Korean won	-	66,203	-	16,203	913
	Debts in foreign currencies	-	1,030,823	-	(35,677)	9,736
		984,143	1,849,415	(52,840)	(120,285)	53,314

Details of derivative instruments designated as fair value hedge as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Notional amount	Assets	Liabilities	Changes in the fair value
Interest rate				
Swaps	2,941,681	52,201	107,086	(52,359)
Other	20,000	511	-	(56)
	2,961,681	52,712	107,086	(52,414)

(In millions of Korean won)	December 31, 2017		
	Notional amount	Assets	Liabilities
Interest rate			
Swaps	2,919,935	47,856	49,962
Other	50,000	775	70
	2,969,935	48,631	50,032

The fair value of non-derivative financial instruments designated as hedging instruments as at March 31, 2018 and December 31, 2017 are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Deposit in foreign currencies	-	32,051

Details of the ineffective portion of changes in fair value of derivatives recognized in profit or loss for the period ended March 31, 2018, are as follows:

(In millions of Korean won)	**2018**
	Hedge ineffectiveness recognized in profit or loss
Interest rate	899

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Gains (losses) on hedging instruments	(51,705)	(5,402)
Gains (losses) on the hedged item attributable to the hedged risk	53,250	6,730
	1,545	1,328

Cash flow hedge

Details of cash flow hedged items as at March 31, 2018, are as follows:

(In millions of Korean won)	**March 31, 2018**	
	Changes in fair value	**Other comprehensive income for cash flow hedge**
Interest rate risk	(11,142)	15,771

The fair value of derivative financial instruments designated as hedging instruments as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**			
	Notional amount	**Assets**	**Liabilities**	**Changes in fair value**
Interest rate				
Swaps	2,379,675	22,209	121	11,078

(In millions of Korean won)	**December 31, 2017**		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	1,660,670	10,440	-

Gains and losses from cash flow hedging instruments and hedged items attributable to the hedged risk for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Gains (losses) on hedging instruments	11,078	(264)
Effective gains (losses) from cash flow hedging instruments (recognized in other comprehensive income (loss))	11,062	(232)
Ineffective gains (losses) from cash flow hedging instruments (recognized in profit or loss)	16	(32)

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Other comprehensive income or loss	11,062	(232)
Reclassification to profit or loss	-	11
Income tax effect	(3,042)	53
	8,020	(168)

As at March 31, 2018, the hedged items subject to cash flow hedge are exposed to the risk of changes in cash flows until June 9, 2022.

Hedges of a net investment in a foreign operation

Details of net investment in a foreign operation as at March 31, 2018, are as follows:

(In millions of Korean won)	**March 31, 2018**	
	Changes in fair value	**Other comprehensive income (loss) for hedges of a net investment in a foreign operation**
Currency (foreign currency risk)	(2,472)	(3,945)

Details of derivative financial instruments designated as hedging instruments in hedge of net investment in a foreign operation as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**			
	Notional amount	**Assets**	**Liabilities**	**Changes in the fair value**
Forward exchange contract	491,657	-	651	2,006
Debentures in foreign currencies	101,318	-	101,024	466
	592,975	-	101,675	2,472

(In millions of Korean won)	**December 31, 2017**		
	Notional amount	**Assets**	**Liabilities**
Forward exchange contract	471,416	21,398	-

Fair value of non-derivative financial instruments designated as hedging instruments as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Debentures in foreign currencies	99,412	99,994

Gains or losses from hedging instruments in hedge of net investment in a foreign operation and hedged items attributable to the hedged risk for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Gains (losses) on hedging instruments	2,246	8,827
Effective gains (losses) from cash flow hedging instruments (recognized in other comprehensive income (loss))	2,246	8,827
Ineffective gains (losses) from cash flow hedging instruments (recognized in profit or loss)	-	-

Effective portion of gains (losses) on hedging instruments recognized in other comprehensive income for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Other comprehensive income (loss)	2,246	8,827
Income tax effect	(618)	(2,136)
Other comprehensive income (loss) after tax	1,628	6,691

10. Loans at Amortized Cost

Loans as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Loans	257,987,500	252,572,981
Deferred loan origination fees and costs	553,053	551,345
Allowances	(1,661,016)	(1,413,721)
Carrying amount	256,879,537	251,710,605

Loans to banks as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Loans	3,543,692	5,314,577
Allowances	(228)	(77)
Carrying amount	3,543,464	5,314,500

Loans to customers other than banks as at March 31, 2018 and December 31, 2017 are as follows:

(In millions of Korean won)	**March 31, 2018**		
	Retail	**Corporate**	**Total**
Loans in Korean won	131,578,279	108,752,338	240,330,617
Loans in foreign currencies	105,665	3,177,447	3,283,112
Domestic import usance bills	-	2,407,632	2,407,632
Off-shore funding loans	-	903,060	903,060
Call loans	-	553,153	553,153
Bills bought in Korean won	-	2,785	2,785
Bills bought in foreign currencies	-	3,016,502	3,016,502
Guarantee payments under payment guarantee	-	4,139	4,139
Reverse repurchase agreements	-	4,035,000	4,035,000
Privately placed bonds	-	460,861	460,861
	131,683,944	123,312,917	254,996,861
Proportion (%)	51.64	48.36	100.00
Allowances	(440,563)	(1,220,225)	(1,660,788)
	131,243,381	122,092,692	253,336,073

(In millions of Korean won)	December 31, 2017		
	Retail	**Corporate**	**Total**
Loans in Korean won	130,390,627	105,300,767	235,691,394
Loans in foreign currencies	95,492	3,042,565	3,138,057
Domestic import usance bills	-	2,128,868	2,128,868
Off-shore funding loans	-	750,102	750,102
Call loans	-	335,000	335,000
Bills bought in Korean won	-	4,168	4,168
Bills bought in foreign currencies	-	3,875,550	3,875,550
Guarantee payments under payment guarantee	-	6,373	6,373
Reverse repurchase agreements	-	1,159,900	1,159,900
Privately placed bonds	-	720,337	720,337
	130,486,119	117,323,630	247,809,749
Proportion (%)	52.66	47.34	100.00
Allowances	(318,533)	(1,095,111)	(1,413,644)
	130,167,586	116,228,519	246,396,105

Changes in deferred loan origination fees and costs for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	562,425	74,289	(72,736)	-	563,978
Other origination costs	456	23	(72)	-	407
	562,881	74,312	(72,808)	-	564,385
Deferred loan origination fees					
Loans in Korean won	6,793	597	(563)	-	6,827
Other origination fees	4,749	43	(287)	-	4,505
	11,542	640	(850)	-	11,332
	551,339	73,672	(71,958)	-	553,053

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)	2017				
	Beginning	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	582,479	54,486	(72,227)	-	564,738
Other origination costs	295	39	(150)	49	233
	582,774	54,525	(72,377)	49	564,971
Deferred loan origination fees					
Loans in Korean won	9,968	402	(1,912)	-	8,458
Other origination fees	2,356	102	(512)	(6)	1,940
	12,324	504	(2,424)	(6)	10,398
	570,450	54,021	(69,953)	55	554,573

11. Allowances for Loan Losses

Changes in the allowances for loan losses for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018							
	Retails				Corporates			
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses			Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		
		Non-impaired	Impaired	Financial instruments applying credit impaired approach		Non-impaired	Impaired	Financial instruments applying credit impaired approach
Beginning[1]	162,111	155,623	133,002	-	193,359	263,721	759,367	-
Transfer between stages								
Transfer to 12-month expected credit losses	32,999	(32,990)	(9)	-	7,351	(7,194)	(157)	-
Transfer to lifetime expected credit losses	(19,943)	24,262	(4,319)	-	(5,181)	6,376	(1,194)	-
Impairment	(428)	(21,530)	21,958	-	(556)	(10,386)	10,942	-
Write-offs	-	-	(72,865)	-	-	-	(46,820)	-
Recover from write-offs	5	-	29,164	-	-	-	37,087	-
Disposal	(90)	(2)	-	-	-	-	-	-
Provision (reversal) for loan losses[2]	(16,345)	23,121	26,431	-	(16,587)	22,416	7,789	-
Others (change of currency ratio, etc.)	(9)	28	389	-	262	(160)	18	-
Ending	158,300	148,512	133,751	-	178,648	274,773	767,032	-

[1]Restated based on Korean IFRS 1109.

[2] Provision for credit losses in statement of comprehensive income also includes provision (reversal) for unused commitments and guarantees (Note 22), provision for financial guarantee contracts (Note 22), provision of allowance for other financial assets (Note 17), reversal of allowance for due from financial institutions (Note 7) and provision of allowance for debt securities (Note 12).

(In millions of Korean won)	2017		
	Retail	Corporate	Total
Beginning	333,269	1,262,342	1,595,611
Written-off	(66,372)	(79,269)	(145,641)
Recoveries from written-off loans	30,357	39,585	69,942
Sale	(50)	(120)	(170)
Other changes	240	(10,110)	(9,870)
Provision[1]	31,584	131,162	162,746
Ending	329,028	1,343,590	1,672,618

[1] Provision (reversal) for credit losses in statement of comprehensive income also includes provision (reversal) for unused commitments and guarantees (Note 22), provision (reversal) for financial guarantee contracts (Note 22), and provision (reversal) of allowance for other financial assets (Note 17).

The loan and receivables which were written-off but the claims has not been forfeited (i.e its extinctive prescription did not occur, and that are not collected) amounts to ₩ 10,069,068 as at March 31, 2018.

Changes in the gross carrying amounts of loans

Changes in the gross carrying amounts of loans that significantly affect allowances for loan losses for the three-month period ended March 31, 2018, are as follows:

(In millions of Korean won)	**Financial instruments applying 12-month expected credit losses**	**Financial instruments applying lifetime expected credit losses**	
		Non-impaired	**Impaired**
Write-offs	-	-	(119,685)
Disposal or repurchase	(368,011)	(1,237)	-
Others (change of currency ratio)	-	-	(2,022)

12. Financial Assets at Fair Value Through Profit or Loss and Financial Investments

Details of financial assets at fair value through profit or loss and financial investments as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**
Financial assets at fair value through profit or loss	
Debt securities	
Government and public bonds	1,894,068
Financial bonds	3,952,660
Corporate bonds	2,155,669
Asset-backed securities	147,103
Beneficiary certificates	5,389,526
Equity investments	116,425
Derivative-linked securities	127,651
Other debt securities	442,219
Equity securities	
Stocks	193,587
Loans	
Private placed corporate bonds	104,888
Other loans	29,972
Others	
Financial instruments indexed to the price of gold	74,401
	14,628,169
Financial Investments	
Financial assets at fair value through other comprehensive income	
Debt securities	
Government and public bonds	3,333,591
Financial bonds	12,793,866
Corporate bonds	6,963,875
Asset-backed securities	1,011,709
Equity securities	
Stocks	1,902,946
Equity investments	37,043
	26,043,030
Financial assets at amortized cost	
Debt securities	
Government and public bonds	1,300,683
Financial bonds	3,900,780
Corporate bonds	1,700,097
Asset-backed securities	5,138,162
Allowance	(1,389)
	12,038,333
	38,081,363

(In millions of Korean won)	**December 31, 2017**
Financial assets held for trading	
Debt securities	
Government and public bonds	1,639,136
Financial bonds	3,727,349
Corporate bonds	2,025,492
Asset-backed securities	148,995
Others	359,641
Equity securities	
Stocks	121,949
Beneficiary certificates	216,955
Others	73,856
	8,313,373
Financial assets designated at fair value through profit or loss	
Derivative linked securities	95,357
	8,408,730
Available-for-sale financial assets	
Debt securities	
Government and public bonds	2,820,398
Financial bonds	15,838,948
Corporate bonds	6,741,055
Asset-backed securities	2,205,360
Equity securities	
Stocks	1,923,152
Equity investments	143,685
Beneficiary certificates	2,405,426
Others	500
	32,078,524
Held-to-maturity financial assets	
Debt securities	
Government and public bonds	1,302,836
Financial bonds	1,878,005
Corporate bonds	1,360,836
Asset-backed securities	4,195,473
	8,737,150
	40,815,674

Dividend incomes from the equity securities designated at fair value through other comprehensive income for the three-month period ended March 31, 2018 are as follows:

(In millions of Korean won)		**2018**	
		From the financial asset derecognized	**From the holding financial asset**
Stocks	Listed	-	12,527
	Unlisted	-	14,504
		-	27,031

The derecognized equity securities at fair value through other comprehensive income for the three-month period ended March 31, 2018, are as follows:

(In millions of Korean won)		2018	
		Disposal price	**Accumulated OCI as at disposal date**
Stocks	Listed	1,198	(3,486)
	Unlisted	480	480
		1,678	(3,006)

Provision, and reversal for the allowance of financial investments for the three-month period ended March 31, 2018, are as follows:

(In millions of Korean won)	2018		
	Impairment losses	**Reversal of impairment**	**Total**
Debt instruments at fair value through other comprehensive income	(187)	67	(120)
Securities at amortized cost	(81)	71	(10)
	(268)	138	(130)

The impairment losses and the reversal of impairment losses in financial investments for the three-month period ended March 31, 2017, are as follows:

(In millions of Korean won)	2017		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	(980)	-	(980)

Changes in the allowances for debt securities for the three-month period ended March 31, 2018, are as follows:

(In millions of Korean won)	2018		
	Financial instruments applying 12-month expected credit losses	**Financial instruments applying lifetime expected credit losses**	
		Non-impaired	**Impaired**
Beginning[1]	3,042	482	-
Transfer between stages	-	-	-
Transfer to 12-month expected credit losses	-	-	-
Transfer to lifetime expected credit losses	-	-	-
Impairment	-	-	-
Disposal	(58)	-	-
Provision (reversal) for loan losses	131	-	-
Business combination	-	-	-
Others (change of currency ratio, etc.)	(1)	(2)	-
Ending	3,114	480	-

[1] Prepared in accordance with Korean IFRS 1109.

13. Investments in Associates

Investments in associates as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund[1]	12.61	104,327	106,023	106,023	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	5,247	5,247	Credit information	Korea
KB12-1 Venture Investment Partnership[2]	80.00	19,600	37,835	37,835	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	2,342	66	362	Investment finance	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	104,285	103,031	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	9,159	(16,451)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	10,376	12,769	12,769	Investment finance	Korea
Future Planning KB Start-up Creation Fund[2]	50.00	14,700	18,292	18,292	Investment finance	Korea
KB-KDBC New Technology Business Investment Fund[2]	33.33	2,500	2,440	2,440	Investment finance	Korea
KBTS Technology Venture Private Equity Fund[2]	30.00	2,160	2,110	2,110	Investment finance	Korea
Shinla Construction Co., Ltd. [3]	20.17	-	(551)	-	Specialty construction	Korea
Terra Corporation[3]	24.06	-	2	-	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp. [3]	22.89	-	(606)	123	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd. [3]	42.65	-	(433)	-	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd[3]	26.49	-	(16)	-	Manufacture of metal door, windows, shutter and relevant products	Korea
Shinhwa Underwear Co., Ltd. [3]	26.05	-	(57)	183	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd. [3]	38.62	-	14	-	Wholesale of paper	Korea
Jaeyang Industry Co.,Ltd. [3]	20.86	-	(552)	-	Manufacture of pouches, cases, and bags	Korea
Kendae Co.,Ltd. [3]	41.01	-	(252)	98	Screen Printing	Korea
Jinseung Tech Co., Ltd. [3]	30.04	-	(176)	-	Manufacture of other general-purpose machinery n.e.c.	Korea
Dongjo Co., Ltd. [3]	29.29	-	806	115	Wholesale of agricultural and forestry machinery and equipment	Korea
Korea NM Tech Co., Ltd. [3]	22.41	-	552	-	Manufacture of motor vehicles, trailers and semitrailers	Korea

Jungdo Co., Ltd. [3]	25.34	-	1,492	-	Office, commercial and institutional building construction	Korea
Dae-A Leisure Co., Ltd. [3]	49.36	-	1,613	578	Earth works	Korea
Daesang Techlon Co., Ltd. [3]	47.73	-	695	-	Manufacture of Plastic, Teflon etc.	Korea
KB High-tech Company Investment Fund[2]	50.00	22,800	25,233	25,233	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	10,152	9,890	10,152	Investment finance	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,407	20,407	Investment finance	Korea
		311,740	330,677	344,998		

(In millions of Korean won)	December 31, 2017					
	Ownership (%)	**Acquisition cost**	**Share of net asset amount**	**Carrying amount**	**Industry**	**Location**
Balhae Infrastructure Fund [1]	12.61	101,794	105,190	105,190	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	5,056	5,056	Credit information	Korea
KB12-1 Venture Investment Partnership [2]	80.00	22,800	37,239	37,239	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	3,891	4,504	4,137	Investment finance	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	105,567	104,310	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	9,159	(16,202)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	10,376	13,770	13,770	Investment finance	Korea
Future Planning KB Start-up Creation Fund [2]	50.00	14,700	18,093	18,093	Investment finance	Korea
KB-KDBC New Technology Business Investment Fund[2]	33.33	2,500	2,486	2,486	Investment finance	Korea
Shinla Construction Co., Ltd. [3]	20.17	-	(551)	-	Specialty construction	Korea
Terra Corporation [3]	24.06	-	36	20	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp. [3]	22.89	-	(601)	127	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd. [3]	42.65	-	(433)	-	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd. [3]	26.49	-	(20)	-	Manufacture of metal door, windows, shutter and relevant products	Korea
Shinhwa Underwear Co., Ltd. [3]	26.05	-	(102)	138	Manufacture of underwear and sleepwear	Korea
DPAPS Co., Ltd. [3]	38.62	-	155	-	Wholesale of paper	Korea
Jaeyang Industry Co., Ltd. [3]	20.86	-	(522)	-	Manufacture of luggage and other protective cases	Korea
Keundae Printing Co., Ltd. [3]	41.01	-	(223)	127	Screen Printing	Korea

Jinseung Tech Co., Ltd. [3]	30.04	-	(173)	-	Manufacture of other general-purpose machinery n.e.c.	Korea
Dong Jo Co., Ltd. [3]	29.29	-	691	-	Wholesale of agricultural and forestry machinery and equipment	Korea
Korea NM Tech Co., Ltd. [3]	22.41	-	580	-	Manufacture of motor vehicles, trailers and semitrailers	Korea
Jungdo Co., Ltd. [3]	25.34	-	1,652	-	Office, commercial and institutional building construction	Korea
Dae-A Leisure Co., Ltd. [3]	49.36	-	1,017	-	Earth works	Korea
Daesang Techlon Co., Ltd. [3]	47.73	-	96	-	Manufacture of Plastic, Teflon etc.	Korea
KB High-tech Company Investment Fund [2]	50.00	25,000	26,847	26,847	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	8,230	7,856	8,230	Investment finance	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,122	20,122	Investment finance	Korea
		312,074	332,130	345,892		

[1] As at March 31, 2018 and December 31, 2017, 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] As at March 31, 2018 and December 31, 2017, the Group is a partner in a limited partnership and does not have the right to control over these entities.
[3] The investment in associates was reclassified from financial instruments at fair value through other comprehensive income (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 is as follows:

(In millions of Korean won)	**March 31, 2018[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	842,874	1,756	827,667	841,118	106,023	-	106,023
Korea Credit Bureau Co., Ltd.	75,425	17,119	10,000	58,306	5,247	-	5,247
KB12-1 Venture Investment Partnership	47,498	204	24,500	47,294	37,835	-	37,835
KoFC KBIC Frontier Champ 2010-5(PEF)	225	6	300	219	66	296	362
KB GwS Private Securities Investment Trust	499,238	990	425,814	498,248	104,285	(1,254)	103,031
Incheon Bridge Co., Ltd.	635,697	745,442	61,096	(109,745)	(16,451)	16,451	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	64,829	983	51,880	63,846	12,769	-	12,769
Future Planning KB Start-up Creation Fund	38,122	1,536	29,400	36,586	18,292	-	18,292
KB High-tech Company Investment Fund	50,720	254	45,600	50,466	25,233	-	25,233
Aju Good Technology Venture Fund	25,964	250	26,400	25,714	9,890	262	10,152
KB-KDBC New Technology Business Investment Fund	7,468	148	7,500	7,320	2,440	-	2,440
KBTS Technology Venture Private Equity Fund	7,186	151	7,200	7,035	2,110	-	2,110
KB Star office private real estate Investment Trust No.1	217,947	121,012	95,000	96,935	20,407	-	20,407

(In millions of Korean won)	March 31, 2018[1]				
	Operating revenues	**Profit (Loss)**	**Other comprehensive income**	**Comprehensive income (loss)**	**Dividends**
Balhae Infrastructure Fund	15,231	13,451	-	13,451	3,396
Korea Credit Bureau Co., Ltd.	17,387	2,198	-	2,198	113
KB12-1 Venture Investment Partnership	4,614	4,410	-	4,410	-
KoFC KBIC Frontier Champ 2010-5(PEF)	1,208	1,205	-	1,205	999
KB GwS Private Securities Investment Trust	10,626	10,375	-	10,375	3,453
Incheon Bridge Co., Ltd.	21,726	(1,166)	-	(1,166)	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	519	(6,870)	-	(6,870)	-
Future Planning KB Start-up Creation Fund	96	(85)	-	(85)	-
KB High-tech Company Investment Fund	676	425	-	425	-
Aju Good Technology Venture Fund	687	420	-	420	-
KB-KDBC New Technology Business Investment Fund	10	(138)	-	(138)	-
KBTS Technology Venture Private Equity Fund	-	(166)	-	(166)	-
KB Star office private real estate Investment Trust No.1	3,268	1,356	-	1,356	-

[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.

(In millions of Korean won)

	December 31, 2017[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	836,309	1,800	807,567	834,509	105,190	-	105,190
Korea Credit Bureau Co., Ltd.	75,504	19,323	10,000	56,181	5,056	-	5,056
KB12-1 Venture Investment Partnership	47,454	905	28,500	46,549	37,239	-	37,239
KoFC KBIC Frontier Champ 2010-5(PEF)	15,017	4	12,970	15,013	4,504	(367)	4,137
KB GwS Private Securities Investment Trust	505,115	741	425,814	504,374	105,567	(1,257)	104,310
Incheon Bridge Co., Ltd.	646,811	754,900	61,096	(108,089)	(16,202)	16,202	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	70,166	1,315	51,880	68,851	13,770	-	13,770
Future Planning KB Start-up Creation Fund	37,730	1,544	29,400	36,186	18,093	-	18,093
KB High-tech Company Investment Fund	53,949	255	50,000	53,694	26,847	-	26,847
Aju Good Technology Venture Fund	20,676	250	21,400	20,426	7,856	374	8,230
KB-KDBC Pre-IPO New Technology Business Investment Fund	7,503	45	7,500	7,458	2,486	-	2,486
KB Star office private real estate Investment Trust No.1	216,041	120,462	95,000	95,579	20,122	-	20,122

(In millions of Korean won)	March 31, 2017[1]				
	Operating revenues	**Profit (Loss)**	**Other comprehensive income**	**Comprehensive income (loss)**	**Dividends**
Balhae Infrastructure Fund	66,889	63,904	-	63,904	3,010
Korea Credit Bureau Co., Ltd.	13,664	526	-	526	149
KB12-1 Venture Investment Partnership	1,719	(255)	459	204	-
KoFC KBIC Frontier Champ 2010-5(PEF)	139	135	(1,556)	(1,421)	-
KB GwS Private Securities Investment Trust	8,751	8,499	-	8,499	3,140
Incheon Bridge Co., Ltd.	22,862	3,722	-	3,722	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	2,315	(1,257)	50	(1,207)	-
Future Planning KB Start-up Creation Fund	165	(1,534)	-	(1,534)	-
KB High-tech Company Investment Fund	178	(299)	(136)	(435)	-
Aju Good Technology Venture Fund	86	(322)	-	(322)	-
KB Star office private real estate Investment Trust No.1	3,287	1,397	-	1,397	-

[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.

Changes in investments in associates for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018						
	Beginning[1]	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehensive income**	**Ending**
Balhae Infrastructure Fund	105,190	2,534	-	(3,396)	1,695	-	106,023
Korea Credit Bureau Co., Ltd.	5,056	-	-	(113)	304	-	5,247
KB12-1 Venture Investment Partnership	37,507	-	(3,200)	-	3,528	-	37,835
KoFC KBIC Frontier Champ 2010-5(PEF)	4,137	-	(3,138)	(999)	362	-	362
KB GwS Private Securities Investment Trust	104,310	-	-	(3,453)	2,174	-	103,031
Incheon Bridge Co., Ltd.	-	-	-	-	-	-	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	14,171	-	-	-	(1,402)	-	12,769
Future Planning KB Start-up Creation Fund	18,336	-	-	-	(44)	-	18,292
KB-KDBC New Technology Business Investment Fund	2,486	-	-	-	(46)	-	2,440
KBTS Technology Venture Private Equity Fund	-	2,160	-	-	(50)	-	2,110
Terra Corporation	20	-	-	-	(20)	-	-
MJT&I Corp.	127	-	-	-	(4)	-	123
Shinhwa Underwear Co., Ltd.	138	-	-	-	45	-	183
Kendae Co.,Ltd.	127	-	-	-	(29)	-	98
Dongjo Co., Ltd.	-	-	-	-	115	-	115
Dae-A Leisure Co., Ltd.	-	-	-	-	3,698	(3,120)	578
Daesang Techlon Co., Ltd.	-	-	-	-	(13)	13	-
KB High-tech Company Investment Fund	27,220	-	(2,200)	-	213	-	25,233
Aju Good Technology Venture Fund	8,230	1,922	-	-	-	-	10,152
KB Star office private real estate Investment Trust No.1	20,122	-	-	-	285	-	20,407
	347,177	6,616	(8,538)	(7,961)	10,811	(3,107)	344,998

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)	2017						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehensive income**	**Ending**
Balhae Infrastructure Fund	133,200	-	-	(3,011)	8,055	-	138,244
Korea Credit Bureau Co., Ltd.	4,853	-	-	(149)	77	-	4,781
KB12-1 Venture Investment Partnership	38,797	-	(4,400)	-	(204)	368	34,561
KoFC KBIC Frontier Champ 2010-5(PEF)	14,696	-	-	-	27	(467)	14,256
KB GwS Private Securities Investment Trust	102,948	-	-	(3,139)	1,673	-	101,482
Incheon Bridge Co., Ltd.	728	-	-	-	657	-	1,385
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	19,831	-	-	-	(279)	10	19,562
Future Planning KB Start-up Creation Fund	15,202	-	-	-	(767)	-	14,435
Terra Corporation	28	-	-	-	(8)	-	20
MJT&I Corp.	232	-	-	-	-	-	232
Shinhwa Underwear Co., Ltd.	103	-	-	-	35	-	138
Kendae Co.,Ltd.[4]	-	-	-	-	127	-	127
KB High-tech Company Investment Fund	15,140	5,000	-	-	(88)	(52)	20,000
Aju Good Technology Venture Fund	1,998	1,731	-	-	-	-	3,729
KB Star office private real estate Investment Trust No.1	20,220	-	-	-	294	-	20,514
	367,976	6,731	(4,400)	(6,299)	9,599	(141)	373,466

The tables below provide unrecognized share of losses of associates, both for the reporting period and cumulatively, because the Group has stopped recognizing its share of losses of associates when applying the equity method.

(In millions of Korean won)	March 31, 2018		March 31, 2017	
	Unrecognized loss (gain)	Accumulated unrecognized loss	Unrecognized loss (gain)	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	248	16,451	-	-
Shinla Construction Co., Ltd.	-	183	7	183
Doosung Metal Co., Ltd	(4)	19	(31)	23
Jungdong Steel Co., Ltd	-	487	13	487
DPAPS Co., Ltd.	141	325	(4)	184
Jinseung Tech Co., Ltd.	3	3	-	-
Korea NM Tech Co., Ltd.	28	28	-	-
Jungdo Co., Ltd.	160	160	-	-
Daesang Techlon Co., Ltd.	341	341	-	-
Jaeyang Industry Co., Ltd.	30	30	-	-
EJADE Co., Ltd.	-	-	-	1,112
JSC Bank CenterCredit[1]	-	-	(108,761)	-

[1] Reclassified as assets held for sale for the three-month period ended March 31, 2017.

14. Property and Equipment, and Investment Properties

Details of property and equipment as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	1,973,370	-	(1,018)	1,972,352
Buildings	1,223,565	(422,156)	(5,859)	795,550
Leasehold improvements	720,451	(650,020)	-	70,431
Equipment and vehicles	1,148,806	(1,012,974)	-	135,832
Construction in-progress	16,006	-	-	16,006
Finance lease assets	23,069	(18,431)	-	4,638
	5,105,267	(2,103,581)	(6,877)	2,994,809

(In millions of Korean won)	December 31, 2017			
	Acquisition cost	**Accumulated depreciation**	**Accumulated impairment losses**	**Carrying amount**
Land	1,973,230	-	(1,018)	1,972,212
Buildings	1,223,088	(416,165)	(5,859)	801,064
Leasehold improvements	715,631	(639,555)	-	76,076
Equipment and vehicles	1,161,199	(1,012,373)	-	148,826
Construction in-progress	12,187	-	-	12,187
Finance lease assets	23,069	(17,840)	-	5,229
	5,108,404	(2,085,933)	(6,877)	3,015,594

Changes in property and equipment for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	1,972,212	124	-	-	-	16	1,972,352
Buildings	801,064	-	5,207	(3,537)	(7,221)	37	795,550
Leasehold improvements	76,076	-	3,904	-	(10,571)	1,022	70,431
Equipment and vehicles	148,826	7,049	-	(25)	(19,664)	(354)	135,832
Construction in-progress	12,187	12,971	(9,150)	-	-	(2)	16,006
Finance lease assets	5,229	-	-	-	(591)	-	4,638
	3,015,594	20,144	(39)	(3,562)	(38,047)	719	2,994,809

(In millions of Korean won)	2017						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	2,059,956	-	(22,416)	-	-	(12)	2,037,528
Buildings	825,958	-	(4,796)	-	(7,457)	(28)	813,677
Leasehold improvements	63,656	5	7,199	(54)	(9,286)	680	62,200
Equipment and vehicles	155,847	5,466	-	(50)	(20,585)	(125)	140,553
Construction in-progress	4,013	14,375	(9,728)	-	-	-	8,660
Finance lease assets	7,961	-	-	-	(843)	-	7,118
	3,117,391	19,846	(29,741)	(104)	(38,171)	515	3,069,736

[1] Including transfers from investment properties and assets held for sale.

Changes in accumulated impairment losses of property and equipment for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)

2018				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
(6,877)	-	-	-	(6,877)

(In millions of Korean won)

2017				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
(6,877)	-	-	-	(6,877)

Details of investment properties as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	205,723	-	205,723
Buildings	153,058	(22,013)	131,045
	358,781	(22,013)	336,768

(In millions of Korean won)	**December 31, 2017**		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	205,723	-	205,723
Buildings	152,841	(21,064)	131,777
	358,564	(21,064)	337,500

As at March 31, 2018 and December 31, 2017, fair values of the investment properties amount to ₩ 367,226 million and ₩ 366,811 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 three-month periods ended March 31, 2018 and 2017, amounts to ₩ 4,878 million and ₩ 4,719 million, respectively.

Changes in investment properties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	205,723	-	-	-	205,723
Buildings	131,777	178	41	(951)	131,045
	337,500	178	41	(951)	336,768

(In millions of Korean won)	2017				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	230,254	-	(8,267)	-	221,987
Buildings	142,626	-	(4,057)	(1,929)	136,640
	372,880	-	(12,324)	(1,929)	358,627

15. Intangible Assets

Details of intangible assets as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	66,490	-	(1,202)	65,288
Other intangible assets	888,405	(733,263)	(3,574)	151,568
	954,895	(733,263)	(4,776)	216,856

(In millions of Korean won)	December 31, 2017			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	66,490	-	(1,202)	65,288
Other intangible assets	878,285	(722,368)	(3,597)	152,320
	944,775	(722,368)	(4,799)	217,608

Details of goodwill as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018		December 31, 2017	
	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	-
	66,490	66,490	66,490	66,490

Changes in goodwill for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning	Acquisition	Disposal	Impairment loss	Ending
Housing & Commercial Bank	65,288	-	-	-	65,288
KB Cambodia Bank	-	-	-	-	-
	65,288	-	-	-	65,288

(In millions of Korean won)	2017				
	Beginning	Acquisition	Disposal	Impairment loss	Ending
Housing & Commercial Bank	65,288	-	-	-	65,288
KB Cambodia Bank	1,202	-	-	-	1,202
	66,490	-	-	-	66,490

Changes in accumulated impairment losses for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on other intangible assets	(1,202)	-	-	-	(1,202)

(In millions of Korean won)	2017				
	Beginning	Impairment	Reversal	Others	Ending
Accumulated impairment losses on other intangible assets	-	-	-	-	-

Details of allocation of goodwill to cash-generating units and related information for impairment testing as at December 31, 2017, are as follows:

(In millions of Korean won)	Housing & Commercial Bank			
	Retail Banking	Corporate Banking	KB Cambodia Bank	Total
Carrying amounts	49,315	15,973	-	65,288
Recoverable amount exceeded carrying amount	8,957,260	3,448,191	-	12,405,451
Discount rate (%)	20.47	20.81	27.57	
Permanent growth rate (%)	1.00	1.00	1.00	

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 1.0% annually for Retail Banking, Corporate Banking and KB Cambodia Bank. 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.

Details of intangible assets, excluding goodwill, as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	1,803	(1,526)	-	277
Software	731,793	(643,955)	-	87,838
Other intangible assets	128,703	(73,002)	(3,574)	52,127
Finance leases assets	26,106	(14,780)	-	11,326
	888,405	(733,263)	(3,574)	151,568

(In millions of Korean won)	December 31, 2017			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	1,784	(1,503)	-	281
Software	713,034	(624,399)	-	88,635
Other intangible assets	137,361	(82,899)	(3,597)	50,865
Finance leases assets	26,106	(13,567)	-	12,539
	878,285	(722,368)	(3,597)	152,320

Changes in intangible assets, excluding goodwill, for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)

	2018					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	281	20	-	(24)	-	277
Software	88,635	8,838	-	(8,943)	(692)	87,838
Other intangible assets	50,865	2,649	-	(1,442)	55	52,127
Finance leases assets	12,539	-	-	(1,213)	-	11,326
	152,320	11,507	-	(11,622)	(637)	151,568

(In millions of Korean won)

	2017					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	136	36	-	(28)	(1)	143
Software	83,761	4,933	-	(7,801)	(56)	80,837
Other intangible assets	43,998	9,955	(306)	(1,585)	(168)	51,894
Finance leases assets	16,329	-	-	(1,140)	-	15,189
	144,224	14,924	(306)	(10,554)	(225)	148,063

Changes in accumulated impairment losses on other intangible assets for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	(3,597)	-	-	23	(3,574)

(In millions of Korean won)	2017				
	Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	(4,179)	-	-	568	(3,611)

From 2018, the Group has to pay the fine, if the actual emission exceeds the targeted emission amount; therefore, the emission rights (intangible asset) do not occur even if it is below the targeted emission amount.

Changes in emission rights for the three-month period ended March 31, 2017, are as follows:

(KAU, in millions of Korean won)

	Applicable under 2016		Applicable under 2017		Total	
	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount
Beginning	99,283	-	104,920	-	204,203	-
Gratuitous allocation	578	-	17,046	-	17,624	-
Ending	99,861	-	121,966	-	221,827	-

16. Deferred Income Tax Assets and Liabilities

Details of deferred income tax assets and liabilities as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	March 31, 2018		
	Assets	Liabilities	Net amount
Other provisions	66,555	-	66,555
Impairment losses on property and equipment	3,382	-	3,382
Interest on equity index-linked deposits	41	-	41
Share-based payments	13,822	-	13,822
Provisions for guarantees	25,287	-	25,287
Gains on valuation of derivatives	-	(10,268)	(10,268)
Present value discount	-	(66)	(66)
Losses on fair value hedged item	-	(33,078)	(33,078)
Accrued interest	-	(41,402)	(41,402)
Deferred loan origination fees and costs	-	(132,341)	(132,341)
Gains on revaluation	-	(288,177)	(288,177)
Investments in subsidiaries and associates	19,504	(99,122)	(79,618)
Gains on valuation of security investment	7,224	-	7,224
Defined benefit liabilities	322,083	-	322,083
Accrued expenses	72,590	-	72,590
Retirement insurance expense	-	(292,401)	(292,401)
Adjustments to the prepaid contributions	-	(20,711)	(20,711)
Others	220,736	(18,378)	202,358
	751,224	(935,944)	(184,720)
Offsetting of deferred income tax assets and liabilities	(749,055)	749,055	-
	2,169	(186,889)	(184,720)

(In millions of Korean won)	December 31, 2017		
	Assets	**Liabilities**	**Net amount**
Other provisions	71,870	-	71,870
Impairment losses on property and equipment	5,411	-	5,411
Interest on equity index-linked deposits	43	-	43
Share-based payments	17,014	-	17,014
Provisions for guarantees	24,341	-	24,341
Gains on valuation of derivatives	-	(19,239)	(19,239)
Present value discount	-	(58)	(58)
Losses on fair value hedged item	-	(15,698)	(15,698)
Accrued interest	-	(43,328)	(43,328)
Deferred loan origination fees and costs	-	(131,911)	(131,911)
Gains on revaluation	-	(306,344)	(306,344)
Investments in subsidiaries and associates	16,697	(100,238)	(83,541)
Gains on valuation of security investment	21,483	-	21,483
Defined benefit liabilities	332,930	-	332,930
Accrued expenses	128,700	-	128,700
Retirement insurance expense	-	(301,261)	(301,261)
Adjustments to the prepaid contributions	-	(16,236)	(16,236)
Others	164,322	(18,579)	145,743
	782,811	(952,892)	(170,081)
Offsetting of deferred income tax assets and liabilities	(780,761)	780,761	-
	2,050	(172,131)	(170,081)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 5,463 million associated with investments in subsidiaries and associates as at March 31, 2018, 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 at March 31, 2018.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 4,589 million associated with investments in subsidiaries and associates as at March 31, 2018, 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 ₩ 80,204 million and ₩ 11,976 million associated with loss on SPE repurchase and others, respectively, as at March 31, 2018, due to the uncertainty that these will be realized in the future.

Changes in cumulative temporary differences for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018			
	Beginning[1]	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Other provisions	256,282	256,282	242,019	242,019
Impairment losses on property and equipment	19,678	19,678	12,297	12,297
Interest on equity index-linked deposits	155	60	53	148
Share-based payments	61,870	61,870	50,262	50,262
Provisions for guarantees	98,294	98,294	91,953	91,953
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	81,336	13,528	6,209	74,017
Gains on valuation of security investment	75,642	75,642	26,270	26,270
Defined benefit liabilities	1,210,654	82,948	43,504	1,171,210
Accrued expenses	467,999	467,999	263,962	263,962
Others	881,601	133,014	67,159	815,745
	3,233,715	1,209,315	803,688	2,828,087
Unrecognized deferred income tax assets				
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	18,084			4,589
Others	12,500			11,976
	3,122,927			2,731,318
Tax rate (%)[2]	27.50			27.50
Total deferred income tax assets from deductible temporary differences	857,697			751,223

(In millions of Korean won)	2018			
	Beginning[1]	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Losses from fair value hedge	(57,083)	(57,083)	(120,285)	(120,285)
Accrued interest	(157,556)	(97,431)	(90,427)	(150,552)
Deferred loan origination fees and costs	(479,671)	(479,671)	(481,239)	(481,239)
Gains on valuation of derivatives	(52,764)	(52,764)	(37,338)	(37,338)
Present value discount	(209)	(209)	(240)	(240)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,113,979)	(66,062)	-	(1,047,917)
Investment in subsidiaries and associates	(370,348)	(12,701)	(7,242)	(364,889)
Retirement insurance expense	(1,095,495)	(122,771)	(90,553)	(1,063,277)
Adjustments to the prepaid contributions	(59,040)	(59,040)	(75,315)	(75,315)
Others	(72,737)	(12,127)	(6,238)	(66,848)
	(3,524,170)	(959,859)	(908,877)	(3,473,188)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(4,901)			(5,463)
	(3,453,981)			(3,402,437)
Tax rate (%)[2]	27.50			27.50
Total deferred income tax liabilities from taxable temporary differences	(949,845)			(935,943)

[1] Restated based on Korean IFRS 1109.

[2] As the corporate tax rate was changed due to the revision of the tax law at the end of 2017, deferred tax assets (liabilities) expected to be realized after 2018 are calculated using 27.5%.

(In millions of Korean won)	2017			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Other provisions	291,350	291,350	278,379	278,379
Impairment losses on property and equipment	20,812	20,812	21,355	21,355
Interest on equity index-linked deposits	168	168	137	137
Share-based payments	43,008	43,008	37,121	37,121
Provisions for guarantees	126,319	126,319	110,707	110,707
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	814,685	4,086	23,745	834,344
Gains on valuation of security investment	282,872	282,872	261,453	261,453
Defined benefit liabilities	1,239,914	178,712	42,974	1,104,176
Accrued expenses	959,532	959,532	163,920	163,920
Others	759,606	184,815	116,092	690,883
	4,618,470	2,091,674	1,055,883	3,582,679
Unrecognized deferred income tax assets				
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	788,196			21,269
Others	21,797			9,104
	3,728,273			3,472,102
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	903,002			841,007

(In millions of Korean won)	2017			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Losses from fair value hedge	(59,235)	(59,235)	(66,591)	(66,591)
Accrued interest	(181,166)	(107,389)	(79,466)	(153,243)
Deferred loan origination fees and costs	(497,149)	(497,149)	(482,376)	(482,376)
Gains on valuation of derivatives	(42,294)	(42,294)	(51,937)	(51,937)
Present value discount	(92)	(92)	(330)	(330)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,119,379)	-	-	(1,119,379)
Investment in subsidiaries and associates	(387,268)	(69,274)	(3,882)	(321,876)
Retirement insurance expense	(1,119,042)	(151,141)	-	(967,901)
Adjustments to the prepaid contributions	(62,569)	(61,034)	(53,110)	(54,645)
Others	(84,575)	(26,414)	(63,756)	(121,917)
	(3,618,057)	(1,014,022)	(801,448)	(3,405,483)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(17,205)			(6,953)
	(3,535,564)			(3,333,242)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from taxable temporary differences	(855,330)			(806,527)

17. Other Assets

Details of other assets as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Other financial assets		
Other receivables	5,002,091	3,570,556
Accrued income	763,535	777,629
Guarantee deposits	1,033,300	1,041,519
Domestic exchange settlement debits	455,851	944,697
Others	69,504	59,294
Allowances for loan losses	(22,544)	(50,823)
Present value discount	(1,272)	(1,409)
	7,300,465	6,341,463
Other non-financial assets		
Other receivables	57	49
Prepaid expenses	146,988	108,685
Guarantee deposits	3,125	3,131
Others	56,484	68,829
Allowances on other assets	(21,511)	(22,575)
	185,143	158,119
	7,485,608	6,499,582

Changes in allowances for loan losses on other assets for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**		
	Other financial assets	**Other non-financial assets**	**Total**
Beginning[1]	54,190	22,575	76,765
Provision	975	(511)	464
Written-off	(32,841)	(553)	(33,394)
Others	220	-	220
Ending	22,544	21,511	44,055

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)	**2017**		
	Other financial assets	**Other non-financial assets**	**Total**
Beginning	60,062	23,305	83,367
Provision	2,653	354	3,007
Written-off	(10,247)	(119)	(10,366)
Others	347	-	347
Ending	52,815	23,540	76,355

18. Assets Held for Sale

Details of assets held for sale as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	21,353	(1,334)	20,019	22,628
Buildings	10,409	(4,086)	6,323	7,203
	31,762	(5,420)	26,342	29,831

(In millions of Korean won)	December 31, 2017			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	133,445	(1,492)	131,953	251,520
Buildings	34,862	(11,309)	23,553	24,548
	168,307	(12,801)	155,506	276,068

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation before classified as assets held for sale.

Changes in accumulated impairment losses of assets held for sale for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)

2018				
Beginning	Provision	Reversal	Others	Ending
(12,801)	(5)	284	7,102	(5,420)

(In millions of Korean won)

2017				
Beginning	Provision	Reversal	Others	Ending
(13,935)	(4,037)	28	3,466	(14,478)

As at March 31, 2018, assets held for sale consist of eight real estates of closed offices, which were committed to sell by the management, but not yet sold as at March 31, 2018. As at March 31, 2018, three out of the above assets held for sale are under negotiation with the potential buyers and the remaining five assets are also being actively marketed.

19. Deposits

Details of deposits as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018	December 31, 2017
Demand deposits		
Demand deposits in Korean won	113,753,085	111,232,743
Demand deposits in foreign currencies	6,795,369	6,677,710
	120,548,454	117,910,453
Time deposits		
Time deposits in Korean won	130,387,583	126,778,455
Time deposits in foreign currencies		
Time deposits in foreign currencies	5,205,424	4,622,516
Fair value adjustments on fair value hedged time deposits in foreign currencies	(100,811)	(51,033)
	5,104,613	4,571,483
	135,492,196	131,349,938
Certificates of deposits	3,036,222	3,218,540
	259,076,872	252,478,931

20. Debts

Details of debts as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018	December 31, 2017
Borrowings	14,398,310	14,114,645
Bonds sold under repurchase agreements and others	743,907	710,370
Call money	2,412,501	985,738
	17,554,718	15,810,753

Details of borrowings as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		Lenders	Annual interest rate (%)	March 31, 2018	December 31, 2017
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50 ~ 0.75	1,760,387	1,888,880
	Borrowings from the government	SEMAS and others	0.00 ~ 3.00	1,797,161	1,726,543
	Borrowings from non-banking financial institutions	Industrial Bank of Korea	0.22 ~ 2.70	357,385	342,376
	Other borrowings	Industrial Bank of Korea and others	0.00 ~ 3.90	3,625,285	3,300,884
				7,540,218	7,258,683
Borrowings in foreign currencies	Due to banks	Commerzbank and others	-	33,917	19,820
	Borrowings from banking institutions	Central Bank Of Uzbekistan and others	0.13 ~ 10.05	5,277,318	5,463,262
	Borrowings from other financial institutions	Export Import Bank of Korea and others	2.51 ~ 3.45	58,122	76,134
	Other borrowings in foreign currencies	Standard Chartered Bank and others	-	1,488,735	1,296,746
				6,858,092	6,855,962
				14,398,310	14,114,645

Details of bonds sold under repurchase agreements and others as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	March 31, 2018	December 31, 2017
Bonds sold under repurchase agreements	Individuals, groups, corporations	1.04 ~ 1.50	734,635	700,466
Bills sold	Counter sale	0.50 ~ 1.00	9,272	9,904
			743,907	710,370

Details of call money as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	March 31, 2018	December 31, 2017
Call money in Korean won	Mirae Asset Global Investments Co.,Ltd. and others	1.33 ~ 1.48	2,093,900	577,100
Call money in foreign currencies	Standard Chartered Bank and others	0.60 ~ 2.43	318,601	408,638
			2,412,501	985,738

21. Debentures

Details of debentures as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	Annual interest rate (%)	March 31, 2018	December 31, 2017
Debentures in Korean won			
Structured debentures	3.08~5.86	55,600	135,800
Subordinated fixed rate debentures	3.08~5.12	2,886,924	2,888,411
Fixed rate debentures	1.30~3.45	14,120,065	13,236,365
Floating rate debentures	1.69~1.75	390,000	-
		17,452,589	16,260,576
Fair value adjustments on fair value hedged debentures in Korean won		16,203	19,891
Discount on debentures in Korean won		(26,995)	(36,920)
		17,441,797	16,243,547
Debentures in foreign currencies			
Floating rate debentures	2.20~3.01	778,545	835,692
Fixed rate debentures	1.63~2.88	2,133,000	2,142,800
		2,911,545	2,978,492
Fair value adjustments on fair value hedged debentures in foreign currencies		(35,677)	(25,941)
Discount on debentures in foreign currencies		(11,327)	(12,300)
		2,864,541	2,940,251
		20,306,338	19,183,798

Changes in debentures based on face value for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	135,800	-	(80,200)	-	55,600
Subordinated fixed rate debentures	2,888,411	-	(1,487)	-	2,886,924
Fixed rate debentures	13,236,365	2,350,000	(1,466,300)	-	14,120,065
Floating rate debentures	-	390,000	-	-	390,000
	16,260,576	2,740,000	(1,547,987)	-	17,452,589
Debentures in foreign currencies					
Floating rate debentures	835,692	106,345	(161,010)	(2,482)	778,545
Fixed rate debentures	2,142,800	-	-	(9,800)	2,133,000
	2,978,492	106,345	(161,010)	(12,282)	2,911,545
	19,239,068	2,846,345	(1,708,997)	(12,282)	20,364,134

(In millions of Korean won)	2017				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	337,500	-	(80,620)	-	256,880
Subordinated fixed rate debentures	3,196,993	-	(3,061)	-	3,193,932
Fixed rate debentures	7,259,095	2,136,600	(1,299,010)	-	8,096,685
Floating rate debentures	680,000	-	(100,000)	-	580,000
	11,473,588	2,136,600	(1,482,691)	-	12,127,497
Debentures in foreign currencies					
Floating rate debentures	700,930	175,560	(670,236)	(38,839)	167,415
Fixed rate debentures	2,803,721	-	(354,150)	(195,049)	2,254,522
	3,504,651	175,560	(1,024,386)	(233,888)	2,421,937
	14,978,239	2,312,160	(2,507,077)	(233,888)	14,549,434

22. Provisions

Details of provisions as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Provisions for unused loan commitments	91,125	106,963
Provisions for acceptances and guarantees	92,367	88,808
Provisions for asset retirement obligation	86,493	85,575
Others	72,591	76,846
	342,576	358,192

Changes in provisions for unused loan commitments, acceptances and guarantees for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**					
	Provisions for unused loan commitments			**Provisions for acceptances and guarantees**		
	12-month expected credit losses	**Lifetime expected credit losses**		**12-month expected credit losses**	**Lifetime expected credit losses**	
		Non-impaired	**Impaired**		**Non-impaired**	**Impaired**
Beginning[1]	74,951	27,112	-	40,277	39,628	18,744
Transfer between stages						
Transfer to 12-month expected credit losses	2,800	(2,774)	(26)	39	(39)	-
Transfer to lifetime expected credit losses	(1,065)	1,066	(1)	(119)	158	(38)
Impairment	(54)	(124)	178	(3)	(38)	41
Provision (reversal) for loan losses	(5,964)	(4,790)	(151)	643	(5,987)	(798)
Others (effects of changes in foreign exchange rate, etc.)	20	(53)	-	(46)	(74)	(21)
Ending	70,688	20,437	-	40,791	33,648	17,928

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)	**2017**		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	124,991	126,428	251,419
Effects of changes in foreign exchange rate	(1,976)	(5,681)	(7,657)
Reversal	(8,225)	(10,004)	(18,229)
Ending	114,790	110,743	225,533

Changes in provisions for asset retirement obligation for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Beginning	85,575	77,810
Increase	625	761
Used	(287)	(1,985)
Unwinding of discount	580	450
Ending	86,493	77,036

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.

Changes in other provisions for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)

	2018						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities[1]**	**Others**	**Total**
Beginning	138	5,050	7,482	2,218	177	62,137	77,202
Provision (Reversal)	34	965	291	195	18	(3,755)	(2,252)
Used and Others	(54)	(962)	(1,087)	-	-	(256)	(2,359)
Ending	118	5,053	6,686	2,413	195	58,126	72,591

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)

	2017						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities[1]**	**Others**	**Total**
Beginning	115	50,396	8,537	1,870	358	34,779	96,055
Provision (Reversal)	32	11,515	(203)	(150)	-	(2,013)	9,181
Used and Others	(46)	(10,881)	-	-	-	(56)	(10,983)
Ending	101	51,030	8,334	1,720	358	32,710	94,253

[1] As at March 31, 2017, the estimated greenhouse gas emission is 33,404 tons.

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 growth 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.

Changes in the net defined benefit liabilities for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	1,318,665	(1,310,097)	8,568
Current service cost	34,114	-	34,114
Interest expense(income)	9,392	(9,332)	60
Remeasurements :			
-Return on plan assets (excluding amounts included in interest income)	-	5,886	5,886
Payments from plans (benefit payments)	(47,095)	47,095	-
Payments from the Group	(2,455)	-	(2,455)
Transfer in	1,760	(1,760)	-
Transfer out	(3,759)	3,759	-
Effects of changes in foreign exchange rate	12	-	12
Ending	1,310,634	(1,264,449)	46,185

(In millions of Korean won)	2017		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	1,380,236	(1,309,069)	71,167
Current service cost	35,434	-	35,434
Interest expense (income)	7,540	(7,090)	450
Remeasurements :			
-Return on plan assets (excluding amounts included in interest income)	-	3,598	3,598
Payments from plans (benefit payments)	(174,074)	174,074	-
Payments from the Group	(2,169)	-	(2,169)
Transfer in	1,849	(1,848)	1
Transfer out	(4,638)	4,638	-
Effects of changes in foreign exchange rate	(14)	-	(14)
Ending	1,244,164	(1,135,697)	108,467

Details of the net defined benefit liabilities as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Present value of defined benefit obligation	1,310,634	1,318,665
Fair value of plan assets	(1,264,449)	(1,310,097)
Net defined benefit liabilities	46,185	8,568

Details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Current service cost	34,114	35,434
Interest expenses of net defined benefit liabilities	60	450
Total	34,174	35,884

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Remeasurements:		
- Return on plan assets (excluding amounts included in interest income)	(5,886)	(3,598)
Income tax effects	1,619	871
Remeasurements after income tax	(4,267)	(2,727)

Details of fair value of plan assets as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	-	1,264,449	1,264,449

(In millions of Korean won)	December 31, 2017		
	Assets quoted in an active market	Assets not quoted in an active market	Total
Time deposits	-	1,310,097	1,310,097

Key actuarial assumptions used as at March 31, 2018 and December 31, 2017, are as follows:

	Ratio (%)	
	March 31, 2018	December 31, 2017
Discount rate	2.90	2.90
Salary growth rate	3.75	3.75
Turnover	1.00	1.00

Mortality assumptions are based on the 8th experience-based mortality table of Korea Insurance Development Institute of 2015.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as at March 31, 2018, is as follows:

		Effect on defined benefit obligation	
	Changes in principal assumption	Increase in principal assumption	Decrease in principal assumption
Discount rate	0.5% p	3.80% decrease	4.06% increase
Salary growth rate	0.5% p	3.73% increase	3.54% decrease
Turnover	0.5% p	0.24% decrease	0.25% 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 at March 31, 2018, is as follows:

(In millions of Korean won)	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	62,065	116,456	442,282	842,097	2,234,171	3,697,071

The weighted average duration of the defined benefit obligations is 8.09 years.

24. Other Liabilities

Details of other liabilities as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Other financial liabilities		
Other payables	5,299,123	4,006,412
Prepaid card and debit cards	1,734	2,018
Accrued expenses	2,438,492	2,356,270
Financial guarantee liabilities	22,578	24,337
Deposits for letter of guarantees and others	286,349	351,455
Domestic exchange settlement credits	685,546	39,445
Foreign exchanges settlement credits	143,925	124,728
Borrowings from other business accounts	5,473	5,408
Payables to trust accounts	5,569,761	5,018,031
Liabilities incurred from agency relationship	761,759	518,955
Account for agency businesses	227,013	257,760
Others	50,274	28,535
	15,492,027	12,733,354
Other non-financial liabilities		
Other payables	370,469	384,875
Unearned revenue	53,196	50,139
Accrued expenses	363,398	324,694
Withholding taxes	58,343	145,921
Others	91,696	104,583
	937,102	1,010,212
	16,429,129	13,743,566

25. Equity

25.1 Capital Stock

Details of outstanding shares of the Group as at March 31, 2018 and December 31, 2017, are as follows:

	Ordinary shares	
	March 31, 2018	**December 31, 2017**
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.

25.2 Capital Surplus

Details of capital surplus as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
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	40,471	40,378
	5,219,786	5,219,693

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

Details of accumulated other comprehensive income as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**
Remeasurements of net defined benefit liabilities	(84,169)
Currency translation differences	(24,826)
Net losses on debt instruments at fair value through other comprehensive income	(24,894)
Net gains on equity instruments at fair value through other comprehensive income	377,020
Share of other comprehensive income of associates	(2,129)
Gains on cash flow hedging instruments	15,771
Losses on hedges of a net investment in a foreign operations	(3,945)
	252,828

(In millions of Korean won)	**December 31, 2017**
Remeasurements of net defined benefit liabilities	(79,902)
Currency translation differences	(39,597)
Gains on valuation of available-for-sale financial assets	791,153
Share of other comprehensive income of associates	4,262
Gains on cash flow hedging instruments	7,751
Losses on hedges of a net investment in a foreign operations	(5,573)
	678,094

25.4 Retained Earnings

Retained earnings as at March 31, 2018 and December 31, 2017, consist of:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Legal reserves	2,034,015	2,033,716
Regulatory reserve for credit losses	2,150,772	2,001,063
Voluntary reserves	12,522,628	11,044,972
Retained earnings before appropriation	1,021,354	2,324,000
	17,728,769	17,403,751

With respect to the allocation of net profit earned in a fiscal term, the Group 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 Group'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.

Details of the regulatory reserve for credit losses as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Beginning	2,150,772	2,001,063
Amounts estimated to be appropriated(reversed)	(3,382)	149,709
Ending	2,147,390	2,150,772

Details of the amounts estimated to be appropriated as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Provision (reversal) of regulatory reserve for credit losses[1]	103,578	(22,120)
Adjusted profit after provision of regulatory reserve for credit losses[2]	586,629	685,581

[1] The amount expected to be appropriated is the amount required to reserve for credit losses, calculated based on the beginning balance of regulatory reserve for credit losses (including unearned reserves) that reflects the effect of adoption of Korean IFRS 1109 retrospectively.

[2] Adjusted profit after provision of regulatory reserve for credit losses is calculated on the assumption that expected provision of regulatory reserve for credit losses which is measured in accordance with

Banking Supervision Regulations would be reflected in net profit for the periods without consideration of income tax effect.

26. Interest Income and Expense

Details of interest income, expense, and net interest income for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018
Interest income	
Securities at fair value through profit or loss	48,363
Loans at fair value through profit or loss	1,747
Securities at fair value through other comprehensive income	117,351
Due from financial institutions at amortized cost	15,667
Securities at amortized cost	77,229
Loans at amortized cost	2,025,047
Others	23,972
	2,309,376
Interest expenses	
Deposits	649,836
Debts	65,057
Debentures	111,031
Others	18,156
	844,080
Net interest income	1,465,296

(In millions of Korean won)	2017[1]
Interest income	
Due from financial institutions	14,111
Loans	1,776,782
Financial assets at fair value through profit or loss	38,710
Financial investments	
Available-for-sale financial assets	88,194
Held-to-maturity financial assets	71,284
Others	22,246
	2,011,327
Interest expense	
Deposits	566,146
Debts	46,740
Debentures	83,041
Others	12,464
	708,391
Net interest income	1,302,936

[1] Interest income for 2017 has been restated according to changes in accounting policy concerning interest income reclassification.

Interest income recognized on impaired loans is ₩ 5,945 million (March 31, 2017: ₩ 7,908 million) for the three-month period ended March 31, 2018.

27. Net Fee and Commission Income

Details of fee and commission income, and fee and commission expense for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Fee and commission income		
Banking activity fees	51,002	46,899
Lending activity fees	19,261	18,884
Credit card related fees	334	438
Debit card related fees and commissions	174	163
Agent activity fees	74,458	92,841
Trust and other fiduciary fees	106,090	80,366
Guarantee fees	7,149	7,410
Foreign currency related fees	22,166	22,429
Security activity commissions	52,890	38,142
Other business account commission on consignment	10,775	8,233
Others	63,419	50,755
	407,718	366,560
Fee and commission expense		
Trading activity related fees[1]	2,746	2,755
Lending activity fees	5,292	6,990
Credit card related fees	440	534
Outsourcing related fees	15,764	13,802
Foreign currency related fees	5,283	4,024
Management fees of written-off loans	3,089	2,550
Contributions to external institutions	6,138	6,390
Others	23,521	20,409
	62,273	57,454
Net fee and commission income	345,445	309,106

[1] Fees from financial assets/liabilities at fair value through profit or loss.

28. Net Gains or Losses from Financial Assets/Liabilities at Fair Value Through Profit or Loss

28.1 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 are composed of dividend income and gains or losses arising from changes in the fair values, sales and redemptions.

Details for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**
Revenue from financial instruments at fair value through profit or loss	
Financial assets at fair value through profit or loss	
Debt instruments	58,794
Equity instruments	5,631
	64,425
Derivatives held for trading	
Interest rate	393,283
Currency	634,642
Stock or stock index	2,158
Other	154
	1,030,237
Financial liabilities at fair value through profit or loss	18
Other financial instruments	1
	1,094,681
Expense from financial instruments at fair value through profit or loss	
Financial assets at fair value through profit or loss	
Debt instruments	86,349
Equity instruments	6,848
	93,197
Derivatives held for trading	
Interest rate	365,872
Currency	647,732
Stock or stock index	669
Other	637
	1,014,910
Financial liabilities at fair value through profit or loss	28
Other financial instruments	23
	1,108,158
Net gains or losses from financial assets/liabilities at fair value through profit or loss	(13,477)

(In millions of Korean won)	**2017[1]**
Gains related to financial instruments held for trading	
Financial assets held for trading	
Debt instruments	9,133
Equity instruments	4,195
	13,328
Derivatives held for trading	
Interest rate	291,255
Currency	3,197,751
Stock or stock index	1,239
Others	522
	3,490,767
Financial liabilities held for trading	71
	3,504,166
Losses related to financial instruments held for trading	
Financial assets held for trading	
Debt instruments	10,712
Equity instruments	463
	11,175
Derivatives held for trading	
Interest rate	278,251
Currency	3,254,746
Stock or stock index	216
Others	1,618
	3,534,831
Financial liabilities held for trading	13
Other financial instruments	27
	3,546,046
Net gains or losses on financial instruments held for trading	(41,880)

[1] Interest income for 2017 has been restated according to changes in accounting policy concerning interest income reclassification.

28.2 Net Gains or Losses on Financial Instruments Designated at Fair Value through Profit or Loss

Net gain or loss from financial instruments designated at fair value through profit or loss includes dividend income and gains or losses arising from changes in the fair values, sales and redemptions.

There is no financial instruments designated at fair value through profit or loss for the three-month period ended March 31, 2018.

Details of net gains or losses on financial instruments designated at fair value through profit or loss for the three-month periods ended March 31, 2017 are as follows:,

(In millions of Korean won)	**2017**
Gains from financial assets designated at fair value through profit or loss	
Financial assets designated at fair value through profit or loss	748
Losses from financial assets designated at fair value through profit or loss	
Financial assets designated at fair value through profit or loss	525
Net gains or losses from financial assets designated at fair value through profit or loss	223

29. Other Operating Income and Expenses

Details of other operating income and expenses for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**
Other operating income	
Revenue related to financial assets at fair value through other comprehensive income	
Gains on sale of the securities at fair value through other comprehensive income	3,404
	3,404
Revenue related to financial assets at amortized cost	
Gains on sale of loans at amortized cost	3,045
	3,045
Gains on foreign exchange transactions	178,689
Dividend income	27,031
Others	75,248
	287,417
Other operating expenses	
Expenses related to financial assets at fair value through other comprehensive income	
Losses on sale of the securities at fair value through other comprehensive income	792
	792
Expenses related to financial assets at amortized cost	
Losses on sale of loans at amortized cost	1,247
	1,247
Losses on foreign exchanges transactions	125,623
Others	264,554
	392,216
Net other operating expenses	(104,799)

(In millions of Korean won)	**2017**
Other operating income	
Revenue related to available-for-sale financial assets	
Gains on sale of available-for-sale financial assets	14,206
	14,206
Gains on foreign exchange transactions	474,007
Dividend income	57,495
Others	38,584
	584,292
Other operating expenses	
Expense related to available-for-sale financial assets	
Losses on sale of available-for-sale financial assets	11,129
Impairment losses on available-for-sale financial assets	980
	12,109
Losses on foreign exchange transactions	308,011
Others	213,352
	533,472
Net other operating expenses	50,820

30. General and Administrative Expenses

30.1 General and Administrative Expenses

Details of general and administrative expenses for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018	2017
Employee Benefits		
Salaries and short-term employee benefits - salaries	331,011	330,234
Salaries and short-term employee benefits - welfare expense	221,946	210,222
Post-employment benefits - defined benefit plans	34,174	35,884
Post-employment benefits - defined contribution plans	1,640	398
Termination benefits	(7,741)	(1,806)
Share-based payments	1,279	8,111
	582,309	583,043
Depreciation and amortization	50,620	50,654
Other general and administrative expenses		
Rental expense	60,418	59,068
Tax and dues	25,046	22,838
Communication	4,860	5,048
Electricity and utilities	5,838	5,848
Publication	2,569	2,868
Repairs and maintenance	2,253	2,368
Vehicle	1,502	1,547
Travel	783	981
Training	4,017	4,433
Service fees	22,486	20,018
Others	84,736	80,806
	214,508	205,823
	847,437	839,520

30.2 Share-based Payments

30.2.1 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.

Details of the share grants as at March 31, 2018, are as follows:
(In number of shares)

Share grants	Grant date	Number of granted shares[1, 2]	Vesting conditions
Series 69	2017.01.01	168,360	Service period : 2 years [3]
Series 71	2017.08.26	4,372	Service period : 2 years [3]
Series 72	2017.08.28	5,601	Service period : 2 years [3]
Series 73	2017.11.21	27,786	Service period : 2 years [4]
Series 74	2018.01.01	190,536	Service period : 2 years [3]
Deferred grant in 2015	-	33,050	
Deferred grant in 2016	-	110,967	
Deferred grant in 2017	-	268,859	
		809,531	

[1] Granted shares in relation to Series 69, 71 ~ 74 represent the total number of shares granted to directors and employees but not vested at the end of reporting period. The number of deferred grants represents residual shares that have been vested at the end of reporting period.

[2] Certain percentages among the granted shares are deferred for over three years to five years from the time of initial exercising.

[3] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of performance results, relative TSR and evaluation by the Group's CEO, respectively. However, as for certain number of shares, 30% of the number of shares to be granted is determined based on the accomplishment of the targeted relative TSR, while the 70% is determined by the targeted performance results.

[4] The 30% of the number of shares to be granted is determined based on the accomplishment of the targeted relative TSR, while the other 70% is determined by the targeted financial results of the Bank.

Details of share grants linked to short-term performance as at March 31, 2018, are as follows:

Share grants[1]	Grant date	Number of vested shares	Vesting conditions
Granted shares for 2014	2014.01.01	14,050	Vested
Granted shares for 2015	2015.01.01	58,204	Vested
Granted shares for 2016	2016.01.01	86,450	Vested
Granted shares for 2017	2017.01.01	79,793	Vested
Granted shares for 2018	2018.01.01	20,864	Proportion to service period

[1] Options are given to the executives and employees during the year for deferred payment schedule (after the retirement date), payment proportion and payment period. Due to these given options, the deferred payment period might be a maximum of five years after the retirement date.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as at March 31, 2018, 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 69	0.75~5.76	1.88~2.46	58,029	51,105~59,323
Series 71	1.75~4.76	2.01~2.43	57,755	52,832~57,733
Series 72	1.75~4.76	2.01~2.43	57,957	52,832~57,733
Series 73	1.64~4.64	1.99~2.43	63,386	52,988~57,907
Series 74	1.75~4.76	2.01~2.43	56,834	52,832~57,733
Grant deferred in 2015	0.75~3.76	1.88~2.30	-	54,217~59,323
Grant deferred in 2016	0.75~5.76	1.88~2.46	-	51,105~59,323
Grant deferred in 2017	0.00~4.76	1.88~2.43		52,832~61,294
Linked to short-term performance				
Share granted in 2014	0.00	1.88	-	61,294
Share granted in 2015	0.00~5.76	1.88~2.46	-	51,105~61,294
Share granted in 2016	0.00~5.76	1.88~2.46	-	51,105~61,294
Share granted in 2017	0.75~5.76	1.88~2.46	-	51,105~59,323
Share granted in 2018	1.75~3.76	2.01~2.30	-	54,217~57,733

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 at March 31, 2018, was used for the underlying asset price. Also, the average three-year historical dividend rate was used as the expected dividend rate.

As at March 31, 2018 and December 31, 2017, the accrued expenses related to share-based payments, including share grants, amounted to ₩ 47,021 million and ₩ 58,897 million, respectively, and the compensation costs from share grants amounting to ₩ 1,279 million and ₩ 8,111 million were incurred during the three-month periods ended March 31, 2018 and 2017, respectively.

30.2.2 Mileage Stock

Details of Mileage Stock as at March 31, 2018, are as follows:

(In number of shares)	Grant date	Number of granted shares[1]	Expected exercise period (Years)[1]	Number of exercisable shares[2]
Share granted in 2016	2016.01.23	33,829	0.00~0.81	16,003
	2016.04.29	60	0.00~1.08	36
	2016.07.07	280	0.00~1.27	125
	2016.07.18	767	-	-
	2016.08.03	107	0.00~1.34	53
	2016.08.17	51	0.00~1.38	30
	2016.08.30	256	0.00~1.42	199
	2016.09.06	206	0.00~1.44	120
	2016.10.07	105	0.00~1.52	97
	2016.11.01	118	0.00~1.59	47
	2016.12.07	211	0.00~1.69	112
	2016.12.08	43	0.00~1.69	32
	2016.12.15	12	0.00~1.71	12
	2016.12.20	309	0.00~1.72	264
	2016.12.28	76	0.00~1.75	52
	2016.12.30	210	0.00~1.75	107
Share granted in 2017	2017.01.09	28,925	0.00~1.78	15,822
	2017.02.03	43	0.00~1.85	28
	2017.04.03	82	0.00~2.01	61
	2017.05.22	20	0.00~2.14	20
	2017.07.03	52	0.00~2.26	52
	2017.08.07	29	0.00~2.35	29
	2017.08.08	5	0.00~2.36	5
	2017.08.16	204	0.00~2.38	200
	2017.08.17	40	0.00~2.38	40
	2017.08.24	387	0.00~2.40	362
	2017.09.08	82	0.00~2.44	72
	2017.10.20	9	0.00~2.56	9
	2017.11.01	120	0.00~2.59	120
	2017.11.06	106	0.00~2.60	106
	2017.12.06	105	0.00~2.68	97
	2017.12.26	254	0.00~2.74	225
	2017.12.29	114	0.00~2.75	98
Share granted in 2018	2018.01.10	19,201	0.00~2.78	18,759
	2018.02.12	9	0.00~2.87	9
		86,427		53,403

[1] Mileage stock is exercisable for two years after one year from the grant date. When the mileage stock is exercised, the closing price of prior month is applied. However, in case of transfer or retirement during the vesting period, mileage stock is exercisable at the closing price of the last month prior to transfer or retirement.

[2] The exercisable shares are assessed based on the stock price as at March 31, 2018. These shares are vested immediately at grant date.

The accrued expenses for share-based payments in regard to mileage stock as at March 31, 2018 and December 31, 2017, are ₩ 3,242 million and ₩ 2,973 million, respectively. The compensation costs amounting to ₩ 1,218 million and ₩ 1,245 million were recognized as an expense for the three-month periods ended March 31, 2018 and 2017, respectively.

31. Non-operating Income and Expenses

Details of non-operating income and expenses for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Non-operating income		
Gains on disposal of property and equipment and assets held for sale	115,773	23
Rental income	6,757	6,515
Others	3,762	34,106
	126,292	40,644
Non-operating expenses		
Losses on disposal of property and equipment and assets held for sale	4,162	101
Donation	4,116	4,006
Restoration cost	373	453
Others	4,899	8,195
	13,550	12,755
Net non-operating income	112,742	27,889

32. Income Tax Expense

Income tax expense for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**
Tax payable	
Current tax expense	210,911
Adjustments recognized in the period for current tax of prior years	(26,811)
	184,100
Changes in deferred income tax assets (liabilities)	93,680
Income tax expense of overseas branches	636
Income tax recognized directly in equity	
Net losses on equity instruments at fair value through other comprehensive income	(14,790)
Net losses on debt instruments at fair value through other comprehensive income	(3,570)
Currency translation adjustments	846
Remeasurements of net defined benefit liabilities	1,619
Loss on hedges of a net investment in a foreign operations	(618)
Loss on cash flow hedging instruments	(3,042)
Share of other comprehensive income of associates	854
	(18,701)
Consolidated tax effect	(11,474)
Tax expense	248,241

(In millions of Korean won)	**2017**
Tax payable	
Current tax expense	7,495
Adjustments recognized in the period for current tax of prior years	(11,854)
	(4,359)
Changes in deferred income tax assets (liabilities)	12,566
Income tax expense of overseas branches	526
Income tax recognized directly in equity	
Changes in value of available-for-sale financial assets	(22,586)
Changes in exchange difference of foreign operation	2,259
Changes in remeasurements of net defined benefit liabilities	871
Loss on hedging investment of a net investment in a foreign operation	(2,136)
Gain on cash flow hedging instruments	53
Share of other comprehensive income of associates	21,532
	(7)
Consolidated tax effect	(34)
Tax expense	8,692

[1] The Group recognized deferred income tax assets(and tax income) for the deductible temporary difference of ₩ 786,293 million incurred from valuation loss on JSC BankCenterCredit because disposal of its shares became probable during the three-month period ended March 31, 2017.

Details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Income tax refund receivables prior to offsetting[1]	(32,006)	(115,881)
Tax payables prior to offsetting[2]	213,540	348,304
Tax payables (receivables) after offsetting	181,534	232,423
Adjustment on consolidated tax payable and others[3]	(11,474)	(19,347)
Accounts receivables (payables)[4]	(167,157)	(209,533)
Current tax payable	2,903	3,543

[1] Excludes current tax assets of ₩ 486 million (December 31, 2017: ₩ 486 million) from uncertain tax position, which do not qualify for offsetting.

[2] Includes income tax payable of ₩ 2,903 million (December 31, 2017: ₩ 3,543 million) under current tax liabilities as at March 31, 2018, 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 shareholder of the Group for the year ended December 31, 2017, amounting to ₩ 640,132 million, ₩ 1,583 per share was paid in March 2018.

34. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018				
	Beginning[1]	Changes (excluding reclassification)	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	(79,902)	(5,886)	-	1,619	(84,169)
Currency translation differences	(37,711)	12,039	-	846	(24,826)
Net gains (losses) on debt instruments at fair value through other comprehensive income	(34,713)	7,971	5,418	(3,570)	(24,894)
Net gains (losses) on equity instruments at fair value through other comprehensive income	338,027	53,783	-	(14,790)	377,020
Share of other comprehensive income of associates	124	(3,107)	-	854	(2,129)
Gains (losses) on cash flow hedging instruments	7,751	11,062	-	(3,042)	15,771
Gains (losses) on hedges of a net investment in a foreign operations	(5,573)	2,246	-	(618)	(3,945)
	188,003	78,108	5,418	(18,701)	252,828

[1] Restated based on Korean IFRS 1109.

(In millions of Korean won)	2017					
	Beginning	Changes (excluding reclassification)	Reclassification to profit or loss	Tax effect	Classified as assets held for sale	Ending
Remeasurements of net defined benefit liabilities	(94,079)	(3,598)	-	871	-	(96,806)
Currency translation differences	27,509	(42,214)	-	2,259	-	(12,446)
Gains (losses) on valuation of available-for-sale financial assets	680,965	99,716	(6,570)	(22,586)	-	751,525
Share of other comprehensive income of associates	(87,577)	(141)	-	21,532	67,337	1,151
Gains (losses) on cash flow hedging instruments	337	(232)	11	53	-	169
Gains (losses) on hedges of a net investment in a foreign operations	(32,292)	8,827	-	(2,136)	-	(25,601)
Accumulated other comprehensive income related to held for sale	-	-	-	-	(67,337)	(67,337)
	494,863	62,358	(6,559)	(7)	-	550,655

35. Trust Accounts

Financial information of the trust accounts the Group manages as at March 31, 2018 and December 31, 2017, and for the three-month periods ended March 31, 2018 and 2017, is as follows:

(In millions of Korean won)	**March 31, 2018**		**December 31, 2017**	**March 31, 2017**
	Total assets	**Operating revenues**	**Total assets**	**Operating revenues**
Consolidated	4,171,350	28,819	4,148,600	29,959
Unconsolidated	46,457,720	556,823	43,256,371	842,750
	50,629,070	585,642	47,404,971	872,709

[1] Financial information of the trust accounts has not 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 at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Assets		
Accrued trust fees	35,446	35,012
Liabilities		
Due to trust accounts	5,569,761	5,018,031
Accrued interest on due to trust accounts	8,682	7,632
	5,578,443	5,025,663

Significant revenue and expenses related to the Group's trust for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Revenues		
Fees and commissions from trust accounts	106,090	80,366
Commissions from early termination in trust accounts	17	20
	106,107	80,386
Expenses		
Interest expenses on due to trust accounts	14,816	9,802

36. Supplemental Cash Flow Information

Cash and cash equivalents as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018	December 31, 2017
Cash	2,247,787	2,167,172
Checks with other banks	475,010	430,253
Due from Bank of Korea	12,297,762	8,981,665
Due from other financial institutions	3,299,221	4,067,228
	18,319,780	15,646,318
Restricted due from financial institutions	(12,653,422)	(9,239,813)
Due from financial institutions with original maturities over three months	(556,829)	(328,551)
	(13,210,251)	(9,568,364)
	5,109,529	6,077,954

Cash inflows and outflows from income tax, interest and dividends for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	Activities	2018	2017
Income tax paid	Operating	31,230	36,071
Interest received	Operating	2,411,455	2,119,472
Interest paid	Operating	778,084	814,370
Dividends received	Operating	26,219	44,713
Dividends paid	Financing	640,132	359,493

37. Contingent Liabilities and Commitments

Acceptances and guarantees as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	264,626	252,817
Others	542,882	530,272
	807,508	783,089
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	181,197	147,987
Letter of guarantees	60,721	60,853
Bid bond	43,234	46,984
Performance bond	550,567	563,506
Refund guarantees	702,914	778,779
Others	1,938,551	1,960,769
	3,477,184	3,558,878
Financial guarantees		
Acceptances and guarantees for mortgage	53,780	57,445
Overseas debt guarantees	334,095	285,577
International financing guarantees in foreign currencies	46,738	46,953
Others	270,000	270,000
	704,613	659,975
	4,989,305	5,001,942
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,282,863	2,250,543
Refund guarantees	425,307	384,958
	2,708,170	2,635,501
	7,697,475	7,637,443

Guarantee exposure by credit ratings

The credit quality of the guarantees exposure as at March 31, 2018 can be categorized as follows:

(In millions of Korean won)

	March 31, 2018			
	Financial instruments applying 12-month expected credit losses	Financial instruments applying lifetime expected credit losses		Total
		Non-impaired	Impaired	
Confirmed acceptances and guarantees[1]				
Grade 1	3,022,451	-	-	3,022,451
Grade 2	1,318,941	43,700	-	1,362,641
Grade 3	453,387	30,770	-	484,157
Grade 4	17,289	87,433	2,894	107,616
Grade 5	-	468	11,972	12,440
	4,812,068	162,371	14,866	4,989,305
Unconfirmed acceptances and guarantees[1]				
Grade 1	1,387,500	1,540	-	1,389,040
Grade 2	777,266	37,035	-	814,301
Grade 3	336,188	14,814	-	351,002
Grade 4	12,933	128,579	-	141,512
Grade 5	-	390	11,925	12,315
	2,513,887	182,358	11,925	2,708,170
	7,325,955	344,729	26,791	7,697,475

[1] Applied same criteria as the credit quality classification of loans.

Acceptances and guarantees by counterparty as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	March 31, 2018			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Large companies	4,141,757	2,061,959	6,203,716	80.60
Small and medium sized companies	639,862	455,707	1,095,569	14.23
Public and others	207,686	190,504	398,190	5.17
	4,989,305	2,708,170	7,697,475	100.00

(In millions of Korean won)

	December 31, 2017			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Large companies	4,185,975	1,913,114	6,099,089	79.86
Small and medium sized companies	621,835	492,369	1,114,204	14.59
Public and others	194,132	230,018	424,150	5.55
	5,001,942	2,635,501	7,637,443	100.00

Acceptances and guarantees by industry as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	March 31, 2018			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	40,632	6,035	46,667	0.61
Manufacturing	2,700,300	1,327,756	4,028,056	52.33
Service	709,663	86,937	796,600	10.35
Wholesale and retail	947,653	786,062	1,733,715	22.52
Construction	313,067	334,710	647,777	8.42
Public	175,413	98,112	273,525	3.55
Others	102,577	68,558	171,135	2.22
	4,989,305	2,708,170	7,697,475	100.00

(In millions of Korean won)

	December 31, 2017			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	23,317	7,353	30,670	0.40
Manufacturing	2,799,593	1,270,721	4,070,314	53.29
Service	655,057	100,004	755,061	9.89
Wholesale and retail	935,647	837,230	1,772,877	23.21
Construction	335,156	198,996	534,152	6.99
Public	165,249	129,944	295,193	3.87
Others	87,923	91,253	179,176	2.35
	5,001,942	2,635,501	7,637,443	100.00

Commitments as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)

	March 31, 2018	December 31, 2017
Commitments		
Corporate loan commitments	35,040,434	32,786,234
Retail loan commitments	39,452,724	15,935,382
Other acceptance and guarantees in Korean won	1,300,000	1,000,000
Purchase of securities	1,306,303	1,129,408
	77,099,461	50,851,024
Financial Guarantees		
Credit line	1,901,353	1,953,579
Purchase of securities	367,900	354,800
	2,269,253	2,308,379
	79,368,714	53,159,403

Other Matters (including litigation)

a) The Group has filed 87 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 470,709 million, and faces 105 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 199,214 million, which arose in the normal course of the business and are still pending as at March 31, 2018.

b) As at March 31, 2018, the Group has entered into construction contracts amounting to ₩150,051 million related to the construction of integrated headquarter building and no expenditures were made up to March 31, 2018.

c) As at March 31, 2018, the Group has entered into construction contracts amounting to ₩105,175 million related to the construction of integrated IT center, and expenditures made up to March 31, 2018 amount to ₩2,047 million.

d) The face values of the securities sold to general customers through tellers' sale amount to ₩ 372 million and ₩ 372 million as at March 31, 2018 and December 31, 2017, respectively.

38. Subsidiaries

Details of subsidiaries as at March 31, 2018, are as follows:

Investor	Investee	Ownership (%)	Location	Industry
Kookmin Bank	Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank	Kookmin Bank Hongkong Ltd. [1]	100.00	China	-
Kookmin Bank	Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank	Kookmin Bank (China) Ltd.	100.00	China	Banking and foreign exchange transaction
Kookmin Bank	KB Microfinance Myanmar Co.,Ltd	100.00	Myanmar	Micro finance services
Kookmin Bank	Personal pension trust and 10 others[2]	-	Korea	Trust
Kookmin Bank	KL the 1st L.L.C. and 30 others[3]	-	Korea	Asset-backed securitization and others
Kookmin Bank	KB Wise Star Private Real Estate Feeder Fund 1 [4]	86.00	Korea	Investment Trust
KB Wise Star Private Real Estate Feeder Fund 1	KB Star Retail Private Real Estate Master Fund 1 [3]	48.98	Korea	Investment Trust
KB Wise Star Private Real Estate Feeder Fund 1	KB Star Office Private Real Estate Master Fund 2 [3]	44.44	Korea	Investment Trust
Kookmin Bank	KB Multi-Asset Private Securities Fund (Bond Mixed-ETF) [4]	99.27	Korea	Investment Trust
KB Multi-Asset Private Securities Fund (Bond Mixed-ETF)	Global Diversified Multi-Asset Sub-Trust Class IA	100.00	United Kingdom	Investment Trust
Kookmin Bank	KB KBSTAR Short-Term KTB Active ETF[4]	68.12	Korea	Investment Trust
Kookmin Bank	KB Multi-Asset Private Securities Fund S-1(Bond Mixed) [4]	96.00	Korea	Investment Trust
Kookmin Bank	KB Multi-Asset Private Securities Fund P-1(Bond Mixed) [4]	99.96	Korea	Investment Trust
KB Multi-Asset Private Securities Fund P-1(Bond Mixed)	KB Multi-Asset Private Securities Fund P-1(Bond Mixed)	100.00	Korea	Investment Trust
Kookmin Bank	Samsung KODEX 10Y F-LKTB Inverse ETF(Bond-Derivatives) [4]	93.70	Korea	Investment Trust
Kookmin Bank	KB Haeorum Private Securities 83[4]	96.14	Korea	Investment Trust
Kookmin Bank	KB KBSTAR KTB 3Y Futures Inverse ETF[4]	97.55	Korea	Investment Trust
Kookmin Bank	Kiwoom Frontier Private placement fund 10[Bond] [4]	99.90	Korea	Investment Trust
Kookmin Bank	Tong Yang Safe Plus Qualified Private Trust S-8(Bond) [4]	99.97	Korea	Investment Trust

[1] On January 4, 2017, the Group converted Kookmin Bank Hongkong Ltd. into a Hongkong branch of the Bank. This conversion is a business combination of entities under common control. The Group accounted the business combination under carrying amount method, and the transferred assets and liabilities are measured at the carrying amount included in the consolidated financial statements. At

the date of the combination, the transferred assets and liabilities amounted to ₩ 855,731 million and ₩ 852,993 million, respectively.

[2] The Group 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.

[3] The Group 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.

[4] The Group 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.

The condensed financial information of major subsidiaries as at March 31, 2018 and December 31, 2017, and for the three-month periods ended March 31, 2018 and 2017, is as follows:

(In millions of Korean won)	March 31, 2018				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit (Loss) for the period**
Kookmin Bank Int'l Ltd.(London)	488,176	404,318	83,858	4,387	880
Kookmin Bank Hongkong Ltd.	22,820	-	22,820	-	(4)
Kookmin Bank Cambodia PLC.	159,937	72,225	87,712	2,210	764
Kookmin Bank (China) Ltd.	2,189,745	1,775,754	413,991	28,288	126
KB Microfinance Myanmar Co., Ltd	16,233	686	15,547	575	49
Personal pension trust and 10 others	4,179,422	4,071,458	107,964	28,432	978

(In millions of Korean won)	December 31, 2017			March 31, 2017	
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit (Loss) for the period**
Kookmin Bank Int'l Ltd.(London)	506,474	423,252	83,222	3,320	713
Kookmin Bank Hongkong Ltd.	22,866	-	22,866	-	(2,346)
Kookmin Bank Cambodia PLC.	133,133	76,680	56,453	1,933	605
Kookmin Bank (China) Ltd.	2,007,154	1,606,434	400,720	15,155	4
KB Microfinance Myanmar Co.,Ltd	10,372	400	9,972	1	(54)
Personal pension trust and 10 others	4,162,200	4,055,204	106,996	30,691	830

Nature of the risks associated with interests in consolidated structured entities

Terms of contractual arrangements that provide financial support to a consolidated structured entity are as follows:

- The Group provides the capital commitment of ₩ 172,000 million to KB Wise Star Private Real Estate Feeder Fund 1st, of which ₩ 99,717 million has not been utilized. Based on the investment agreement, the Group is subject to increase its investment upon the request of the asset management company or the additional agreement among investors.

- The Group has provided purchase commitment and grant of credit to the structured entities that are considered as subsidiaries. The Group should purchase unsold commercial paper securities if there is a shortage of the investors for the commercial paper securities issued by the structured entity. If events causing the cessation of the issuance of commercial paper securities occur or if the structured entities become insolvent, the Group should provide loans to the structured entities under certain conditions.

(In millions of Korean won)	**March 31, 2018**
KL the 1st L.L.C.	50,130
KH the 2nd L.L.C.	40,767
KL the International 1st L.L.C.	40,266
Silver Investment 2nd Inc.	50,000
KL the 3rd L.L.C.	30,121
KH the 3rd L.L.C.	70,100
KBM the 1st L.L.C.	50,214
KY the 1st L.L.C.	24,028
KBC the 1st L.L.C.	35,079
KH the 4th L.L.C.	25,096
KDL the 1st L.L.C.	43,262
KL Food the 1st L.L.C.	50,151
KB INO 1st L.L.C.	40,175
KBH the 1st L.L.C.	18,570
KBH the 2nd L.L.C.	26,168
LIIV FOR RENTAL 1st L.L.C.	60,154
HLD the 3rd L.L.C.	106,100
KB HUB the 1st L.L.C.	30,109
Leecheon Albatros L.L.C.	30,189
KBH the 3rd L.L.C.	50,119
KBC the 2nd L.L.C.	50,110
KLD the 1st L.L.C.	8,100
LOG the 3rd L.L.C.	24,300
KB Green 1st L.L.C.	35,141
KBL Incheon 1st L.L.C.	100,781
KB DTower 1st L.L.C.	50,509
KB Display 1st L.L.C.	100,466

- The Group 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

KBL Incheon 1st L.L.C. and four other subsidiaries were newly consolidated during the three-month period ended March 31, 2018.

39. Unconsolidated Structured Entity

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

As at March 31, 2018 and December 31, 2017, 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)	March 31, 2018				
	Asset-backed securitization	**Project financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	92,185,233	21,722,150	32,587,897	5,025,223	151,520,503
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	224,333	7,867	3,062,562	17,946	3,312,708
Derivative financial assets	2,205	-	-	-	2,205
Loans at amortized cost	247,800	1,931,602	-	461,380	2,640,782
Financial investments	6,139,865	-	-	-	6,139,865
Investments in associates	-	-	232,630	-	232,630
Others	-	-	-	-	-
	6,614,203	1,939,469	3,295,192	479,326	12,328,190
Liabilities					
Deposits	502,502	746,563	107,947	4,734	1,361,746
Derivative financial liabilities	207	-	-	-	207
Others	1,195	1,739	72	-	3,006
	503,904	748,302	108,019	4,734	1,364,959
Maximum exposure to loss					
Asset[1]	6,614,203	1,939,469	3,295,192	479,326	12,328,190
Purchase and capital commitments	-	-	1,324,744	-	1,324,744
Unused providing lines of credit	2,028,483	-	-	-	2,028,483
Acceptances and guarantees and Loan commitments	415,400	1,406,489	-	-	1,821,889
	9,058,086	3,345,958	4,619,936	479,326	17,503,306
Methods of determining the maximum exposure to loss	Providing lines of credit / Purchase commitments/ Acceptances and guarantees and Loan commitments	Loan commitments / Capital commitments / Purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

(In millions of Korean won)

	December 31, 2017				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	99,835,410	21,636,792	25,929,064	4,890,100	152,291,366
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	168,647	-	-	-	168,647
Derivative financial assets	268	-	-	-	268
Loans	239,894	2,021,225	-	327,875	2,588,994
Financial investments	6,400,833	7,867	2,309,361	17,055	8,735,116
Investments in associates	-	-	235,234	-	235,234
Other assets	-	710	-	-	710
	6,809,642	2,029,802	2,544,595	344,930	11,728,969
Liabilities					
Deposits	484,890	755,242	50,832	3,985	1,294,949
Derivative financial liabilities	229	-	-	-	229
Other liabilities	-	29	45	-	74
	485,119	755,271	50,877	3,985	1,295,252
Maximum exposure to loss					
Asset[1]	6,809,642	2,029,802	2,544,595	344,930	11,728,969
Purchase and capital commitments	20,000	-	1,178,462	-	1,198,462
Unused providing lines of credit	2,082,736	-	-	-	2,082,736
Acceptances and guarantees and Loan commitments	382,300	1,385,722	-	-	1,768,022
	9,294,678	3,415,524	3,723,057	344,930	16,778,189
Methods of determining the maximum exposure to loss	Providing lines of credit / Purchase commitments / Acceptances and guarantees and Loan 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.

40. Finance and Operating Leases

40.1 Finance Lease

The future minimum lease payments as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Net carrying amount of finance lease assets	15,964	17,768
Minimum lease payments		
Within 1 year	1,045	1,660
1-5 years	-	-
	1,045	1,660
Present value of minimum lease payments		
Within 1 year	1,035	1,642
1-5 years	-	-
	1,035	1,642

40.2 Operating Lease

40.2.1 The Group as an Operating Lessee

The future minimum lease payments arising from the non-cancellable lease contracts as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	**March 31, 2018**	**December 31, 2017**
Minimum lease payments		
Within 1 year	138,646	123,869
1-5 years	171,996	138,666
Over 5 years	34,463	34,129
	345,105	296,664
Minimum sublease payments	(2,482)	(2,461)

The lease payments reflected in profit or loss for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	**2018**	**2017**
Lease payments reflected in profit or loss		
Minimum lease payments	35,739	39,975
Sublease payments	(438)	(271)
	35,301	39,704

40.2.2 The Group as an Operating Lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)	March 31, 2018	December 31, 2017
Minimum lease receipts		
Within 1 year	16,412	17,430
1-5 years	33,653	34,079
	50,065	51,509

41. Related Party Transactions

Profit or loss arising from transactions with related parties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)		March 31, 2018	March 31, 2017
Parent			
KB Financial Group Inc.	Fee and commission income	1,060	719
	Other non-operating income	198	250
	Interest expense	663	462
	General and administrative expenses	117	168
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Fee and commission income	291	268
	Interest expense	18	166
	Fee and commission expense	816	160
KB Real Estate Trust Co., Ltd.	Fee and commission income	28	24
	Other non-operating income	11	11
	Interest expense	33	69
	Fee and commission expense	517	268
KB Investment Co., Ltd.	Fee and commission income	9	8
	Interest expense	59	63
KB Credit Information Co., Ltd.	Fee and commission income	17	18
	Other non-operating income	60	91
	Interest expense	26	49
	Fee and commission expense	3,904	3,433
	General and administrative expenses	98	-
KB Data System Co., Ltd.	Fee and commission income	32	24
	Other non-operating income	23	21
	Interest expense	61	35
	General and administrative expenses	12,290	5,955
KB Life Insurance Co., Ltd.	Fee and commission income	3,965	4,938
	Gains on financial instruments at fair value through profit or loss	1,002	-
	Other non-operating income	1,057	1,037
	Interest expense	239	242

	Fee and commission expense	3	-
	Losses on financial instruments at fair value through profit or loss	2,075	-
	Losses on financial instruments at fair value through profit or loss (under Korean IFRS 1039)	-	2,097
	General and administrative expenses	396	448
KB Kookmin Card Co., Ltd.	Interest income	922	882
	Fee and commission income	49,708	56,031
	Gains on financial instruments at fair value through profit or loss	3	-
	Gains on financial instruments at fair value through profit or loss (under Korean IFRS 1039)	-	12
	Other non-operating income	237	633
	Interest expense	311	794
	Fee and commission expense	534	133
	Losses on financial instruments at fair value through profit or loss	548	-
	Losses on financial instruments at fair value through profit or loss (under Korean IFRS 1039)	-	4,238
	General and administrative expenses	48	34
KB Savings Bank Co., Ltd.	Fee and commission income	35	117
	Other non-operating income	11	11
	Interest expense	2	2
	Fee and commission expense	6	-
KB Capital Co., Ltd.	Interest income	279	-
	Fee and commission income	204	293
	Other operating income	1	-
	Other non-operating income	51	36
	Interest expense	289	1
	Fee and commission expense	6	7
	Provision for credit losses	54	-
KB Insurance Co., Ltd.	Interest income	291	12
	Fee and commission income	5,315	5,666
	Gains on financial instruments at fair value through profit or loss	480	-
	Gains on financial instruments at fair value through profit or loss (Under Korean IFRS 1039)	-	796
	Other non-operating income	91	37
	Interest expense	203	202
	Fee and commission expense	1,791	-
	Losses on financial instruments at fair value through profit or loss	4,100	-
	Losses on financial instruments	-	18,717

	at fair value through profit or loss (Under Korean IFRS 1039)		
	Other operating expense	818	-
	General and administrative expenses	3,551	3,384
KB Securities Co., Ltd.	Interest income	24	2
	Fee and commission income	2,416	2,985
	Gains on financial instruments at fair value through profit or loss	1,184	-
	Gains on financial instruments at fair value through profit or loss (Under Korean IFRS 1039)	-	520
	Reversal of credit losses	-	129
	Other non-operating income	1,987	2,116
	Interest expense	1,049	557
	Fee and commission expense	218	95
	Losses on financial instruments at fair value through profit or loss	2,121	-
	Losses on financial instruments at fair value through profit or loss (Under Korean IFRS 1039)	-	3,880
	General and administrative expenses	344	2
Hanbando BTL Private Special Asset Fund	Fee and commission income	40	43
KB Senior Loan Private Fund No.1	Fee and commission income	6	9
KB AMP Infra Private Special Asset Fund 1(FoFs)	Fee and commission income	1	-
KB Onkookmin 2020 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2025 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2030 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2035 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2040 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2045 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2050 TDF Fund(FoFs)	Fee and commission income	1	-
KB Muni bond Private Securities Fund 1(USD)(bond)	Fee and commission income	2	-
KB Global Private Real Estate Debt Fund 1	Fee and commission income	1	-
Associates			
Korea Credit Bureau Co., Ltd.	Fee and commission income	-	1
	Interest expense	43	24
Incheon Bridge Co., Ltd.	Interest income	2,329	2,424
	Interest expense	72	90
Dongjo Co., Ltd.	Reversal of credit losses	11	-
Dae-A Leisure Co., Ltd.	Interest expense	2	-
KB12-1 Venture Investment Partnership	Interest expense	10	13
KB High-tech Company Investment Fund	Interest expense	21	18
Aju Good Technology Venture Fund	Interest expense	5	4

KB-KDBC New Technology Business Investment Fund	Interest expense	10	-
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	21	18
Associates of Parent's subsidiaries			
KB No.8 Special Purpose Acquisition Company	Interest expense	10	10
KB No.9 Special Purpose Acquisition Company	Interest expense	8	9
KB No.10 Special Purpose Acquisition Company	Interest expense	7	5
SY Auto Capital Co., Ltd.	Interest income	37	79
	Interest expense	-	14
	Provision for credit losses	10	-
RAND Bio Science Co., Ltd.	Interest expense	2	5
Wise Asset Management Co., Ltd.	Interest expense	2	2
Food Factory Co., Ltd.	Interest income	2	-
	Fee and commission expense	1	-
KB Pre IPO Secondary Venture Fund 1st	Interest expense	8	-
POSCO-KB Shipbuilding Fund	Interest expense	6	-
Other			
Retirement pension	Fee and commission income	220	202
	Interest expense	1	83

Details of receivables and payables, and related allowances for loan losses arising from the related party transactions as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		**March 31, 2018**	**December 31, 2017**
Parent			
KB Financial Group Inc.	Other assets	1,058	2,837
	Deposits	1,134,236	46,062
	Other liabilities	416,093	283,610
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Other assets	271	231
	Deposits	6,260	8,958
	Other liabilities	252	327
KB Real Estate Trust Co., Ltd.	Other assets	28	-
	Deposits	43,722	16,187
	Other liabilities	360	347
KB Investment Co., Ltd.	Other assets	9	-
	Deposits	17,604	19,816
	Other liabilities	66	62
KB Credit Information Co., Ltd.	Other assets	16	-
	Deposits	3,439	4,444
	Other liabilities	6,142	5,714
KB Data System Co., Ltd.	Other assets	7	3,711
	Deposits	13,736	15,036

	Other liabilities	4,613	4,788
KB Life Insurance Co., Ltd.	Derivative financial assets	109	-
	Other assets	2,799	562
	Derivative financial liabilities	1,542	6,580
	Deposits	375	372
	Debts	25,000	25,000
	Other liabilities	3,168	3,171
KB Kookmin Card Co., Ltd.	Loans at amortized cost (Gross amount)	-	6,806
	Other assets	25,821	25,454
	Derivative financial liabilities	3,635	3,298
	Deposits	66,545	85,091
	Provisions	303	777
	Other liabilities	43,414	48,073
KB Savings Bank Co., Ltd.	Other assets	31	2
	Other liabilities	388	391
KB Capital Co., Ltd.	Loans at amortized cost (Gross amount)	36,261	19,285
	Allowances	113	105
	Other assets	450	89
	Deposits	97,459	73,906
	Other liabilities	72	45
KB Insurance Co., Ltd.	Derivative financial assets	42	-
	Other assets	15,296	7,183
	Derivative financial liabilities	21,415	22,818
	Deposits	4,283	7,034
	Debts	20,000	20,000
	Debentures	49,981	49,981
	Other liabilities	1,873	2,720
KB Securities Co., Ltd.	Cash and due from financial institutions	483	622
	Derivative financial assets	3,884	1,095
	Loans at amortized cost (Gross amount)	3,671	4,346
	Other assets	4,336	2,267
	Derivative financial liabilities	1,716	1,481
	Deposits	416,668	436,508
	Provisions	38	97
	Other liabilities	15,841	15,387
Hanbando BTL Private Special Asset Fund	Other assets	40	42
KB Senior Loan Private Fund No.1	Other assets	6	6
KB Onkookmin 2025 TDF Fund(FoFs)	Other assets	-	1
KB Onkookmin 2030 TDF Fund(FoFs)	Other assets	-	1
KB Muni bond Private Securities Fund 1(USD)(bond)	Other assets	2	2
KB Global Private Real Estate Debt Fund 1	Other assets	1	-

Associates			
Korea Credit Bureau Co., Ltd.	Deposits	9,487	25,513
	Other liabilities	87	111
Incheon Bridge Co., Ltd.	Financial assets at fair value through profit or loss	27,500	-
	Loans at amortized cost (Gross amount)	169,225	200,400
	Allowances	13	287
	Other assets	678	710
	Deposits	43,317	48,795
	Provisions	8	-
	Other liabilities	33	29
Terra Co., Ltd.	Deposits	-	10
Jungdong Steel Co., Ltd.	Deposits	3	3
Jungdo Co., Ltd.	Deposits	4	4
Dongjo Co., Ltd.	Loans at amortized cost (Gross amount)	105	116
	Allowances	20	1
Dae-A Leisure Co., Ltd.	Deposits	1,414	466
	Other liabilities	2	14
Daesang Techlon Co., Ltd.	Deposits	7	2
KB12-1 Venture Investment Partnership	Deposits	75	4,963
	Other liabilities	-	2
KB High-tech Company Investment Fund	Deposits	1,072	7,212
	Other liabilities	3	5
Aju Good Technology Venture Fund	Deposits	3,514	2,771
	Other liabilities	3	1
KB-KDBC New Technology Business Investment Fund	Deposits	5,965	7,500
	Other liabilities	3	4
KB Star Office Private Real Estate Investment Trust No.1	Deposits	5,961	6,962
	Other liabilities	64	45
Associates of Parent's subsidiaries			
KB No.8 Special Purpose Acquisition Company	Deposits	2,314	2,339
	Other liabilities	29	19
KB No.9 Special Purpose Acquisition Company	Deposits	2,310	2,309
	Other liabilities	7	38
KB No.10 Special Purpose Acquisition Company	Deposits	1,674	1,698
	Other liabilities	17	10
SY Auto Capital Co., Ltd.	Loans at amortized cost (Gross amount)	5,000	-
	Allowances	10	-
	Other assets	8	-
	Deposits	7	6
	Provisions	15	29
	Other liabilities	2	-
RAND Bio Science Co., Ltd.	Deposits	1,867	1,032
	Other liabilities	6	4

Inno Lending Co.,Ltd.	Deposits	53	41
Wise Asset Management Co., Ltd.	Deposits	863	340
	Other liabilities	1	1
Built On Co., Ltd.	Deposits	103	26
Food Factory Co., Ltd.	Loans at amortized cost (Gross amount)	200	200
	Other assets	1	1
	Deposits	-	1
Acts Co., Ltd.	Deposits	-	4
Paycoms Co., Ltd.	Deposits	1	-
Big Dipper Co., Ltd.	Deposits	339	-
KB Pre IPO Secondary Venture Fund 1st	Deposits	2,683	-
	Other liabilities	2	-
POSCO-KB Shipbuilding Fund	Deposits	7,000	-
	Other liabilities	6	-
Key management	Loans at amortized cost (Gross amount)	2,341	1,619
	Other assets	2	2
	Deposits	9,198	8,042
	Provisions	1	-
	Other liabilities	165	121
Other			
Retirement pension	Other assets	141	348
	Other liabilities	85	4,286

Key management includes the directors of the Parent Company and the executive directors (vice presidents and above) of the Group and companies where the directors and /or their close family members have control or joint control.

Notional amount of derivative assets and liabilities arising from the related party transactions as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		**March 31, 2018**	**December 31, 2017**
Parent's subsidiaries			
KB Life Insurance Co., Ltd.	Notional amount of Derivative financial instruments	177,492	155,567
KB Kookmin Card Co., Ltd.	Notional amount of Derivative financial instruments	74,437	79,106
KB Insurance Co., Ltd.	Notional amount of Derivative financial instruments	427,925	491,133
KB Securities Co., Ltd.	Notional amount of Derivative financial instruments	155,746	151,204

Significant loan transactions with related parties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Securities Co., Ltd.	4,346	597,920	598,595	-	3,671
KB Kookmin Card Co., Ltd.	6,806	23,944	30,750	-	-
KB Capital Co., Ltd.	19,285	17,126	-	(150)	36,261
Associate					
Incheon Bridge Co., Ltd.	200,400	-	3,675	-	196,725
Associate of Parent's subsidiaries					
SY Auto Capital Co., Ltd.	-	5,000	-	-	5,000
Food Factory Co., Ltd.	200	-	-	-	200

(In millions of Korean won)	2017[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Securities Co., Ltd.	-	317,751	315,128	-	2,623
KB Kookmin Card Co., Ltd.	-	48,548	44,878	-	3,670
Associate					
Incheon Bridge Co., Ltd.	209,094	-	3,457	-	205,637
Associate of Parent's subsidiaries					
SY Auto Capital Co., Ltd.	10,000	3,515	3,515	-	10,000

[1] Transactions between related parties, such as settlements arising from operating activities and daylight overdraft to be repaid on the day of handling, are excluded.

Significant borrowing transactions with related parties for the three-month periods ended March 31, 2018 and 2017, are as follows:

(In millions of Korean won)	2018[1]				
	Beginning	**Increase**	**Decrease**	**Others**	**Ending**
Parent's subsidiaries					
KB Life Insurance Co., Ltd.	25,000	-	-	-	25,000
KB Insurance Co., Ltd.	69,981	-	-	-	69,981

(In millions of Korean won)	2017[1]				
	Beginning	**Loan**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Life Insurance Co., Ltd.	25,000	-	-	-	25,000
KB Insurance Co., Ltd.	20,000	-	-	-	20,000
KB Securities Co., Ltd.	300	-	-	(300)	-

[1] Transactions between related parties, such as settlements arising from operating activities and deposits, are excluded.

Unused commitments provided to related parties as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		**March 31, 2018**	**December 31, 2017**
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	1,000	1,000
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	820,000	813,194
	Other commitments in Korean won	1,300,000	1,000,000
KB Securities Co., Ltd.	Loan commitment in Korean won	140,000	135,653
KB Mezzanine Private Security Investment Trust No.2	Purchase of securities	11,141	11,141
KB Senior Loan Private Fund No.1	Purchase of securities	3,770	3,770
Associates			
Balhae Infrastructure Fund	Purchase of securities	12,564	12,564
Incheon Bridge Co., Ltd.	Loan commitment in Korean won	40,000	20,000
KoFC KBIC Frontier Champ 2010-5 (PEF)	Purchase of securities	1,290	1,290
KB GwS Private Securities Investment Trust	Purchase of securities	876	876
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Purchase of securities	10,040	10,040
Aju Good Technology Venture Fund	Purchase of securities	9,846	11,768
KB-KDBC New Technology Business Investment Fund	Purchase of securities	15,000	7,500
KBTS Technology Venture Private Equity Fund	Purchase of securities	12,840	-
Associates of Parent's subsidiaries			
SY Auto Capital Co., Ltd.	Loan commitment in Korean won	10,000	10,000
Key management	Loan commitment in Korean won	938	458

Unused commitments received from related parties as at March 31, 2018 and December 31, 2017, are as follows:

(In millions of Korean won)		**March 31, 2018**	**December 31, 2017**
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	12,117	12,117
KB Real Estate Trust Co., Ltd.	Purchase of securities	2,319	4,319
KB Life Insurance Co., Ltd.	Purchase of securities	11,595	21,595
KB Securities Co., Ltd.	Purchase of securities	2,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	89,130	85,114

Compensation to key management for the three-month periods ended March 31, 2018 and 2017, consists of:

(In millions of Korean won)	**2018**			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	323	13	385	721
Registered directors (non-executive)	82	-	-	82
Non-registered directors	935	46	793	1,774
	1,340	59	1,178	2,577

(In millions of Korean won)	**2017**			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	434	10	120	564
Registered directors (non-executive)	82	-	-	82
Non-registered directors	1,306	43	1,958	3,307
	1,822	53	2,078	3,953

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 at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)		**March 31, 2018**		**December 31, 2017**	
	Assets pledged	**Carrying amount**	**Collateralized amount**	**Carrying amount**	**Collateralized amount**
Parent's subsidiaries					
KB Securities Co., Ltd.	Securities	76,001	76,000	75,990	76,000
KB Life Insurance Co., Ltd.	Securities	26,108	25,000	26,128	25,000
	Building/ Land	229,140	32,500	229,023	32,500
KB Insurance Co., Ltd.	Securities	49,990	50,000	50,000	50,000
	Building/ Land	229,140	26,000	229,023	26,000

Collateral received from related parties as at March 31, 2018 and December 31, 2017, is as follows:

(In millions of Korean won)		**March 31, 2018**	**December 31, 2017**
Parent's subsidiaries			
KB Securities Co., Ltd.	Time deposits/ Beneficiary right certificate	167,000	167,000
	Securities	20,000	20,000
KB Life Insurance Co., Ltd.	Securities	10,000	10,000
KB Kookmin Card Co., Ltd.	Time deposits	22,000	22,000
KB Insurance Co., Ltd.	Securities	58,000	58,000
Key management	Time deposits and others	401	388
	Real estate	3,542	2,287

As at March 31, 2018, Incheon Bridge Co., Ltd., a related party, provides fund management account, civil engineering completed risk insurance, and management rights as senior collateral amounting to ₩ 611,000 million to a financial syndicate that consists of the Group and five other institutions, and as subordinated collateral amounting to ₩ 384,800 million to subordinated debt holders that consist of the Group and two other institutions. Also, it provides certificate of credit guarantee amounting to ₩ 400,000 million as collateral to a financial syndicate consisting of the Group and five other institutions.

The Bank and KB Kookmin Card Co., Ltd. are jointly and severally liable for the payables of the Bank before the spin-off date.

42. Adoption of Korean IFRS 1109 *Financial Instruments*

The Group adopted Korean IFRS 1109 *Financial Instruments*, which was issued on September 25, 2015, on January 1, 2018. The application of Korean IFRS 1109 has following impacts on the financial statements.

On the date of initial application, January 1, 2018, the measurement category of the financial assets in accordance with Korean IFRS 1039 and 1109, are as follows:

(In millions of Korean won)

Measurement categories		Carrying amounts			
December 31, 2017 (Korean IFRS 1039)	**January 1, 2018 (Korean IFRS 1109)**	**Korean IFRS 1039 [1]**	**Reclassification**	**Remeasurement**	**Korean IFRS 1109 [1]**
Cash and due from financial institutions	Financial assets at amortized cost	15,646,318	(1,908,070)	(1,530)	13,736,718
	Financial assets at fair value through profit or loss [2]	-	1,908,070	-	1,908,070
		15,646,318	-	(1,530)	15,644,788
Financial assets at fair value through profit or loss (under Korean IFRS 1039)					
Financial assets held for trading: debt securities	Financial assets at fair value through profit or loss	7,900,613	312,312	-	8,212,925
Financial assets held for trading: equity securities		338,904	(216,955)	-	121,949
Financial assets held for trading: others		73,856	-	-	73,856
Financial assets designated at fair value through profit or loss		95,357	(95,357)	-	-
		8,408,730	-	-	8,408,730
Derivative financial assets held for trading	Derivative financial assets held for trading	2,527,190	(17,197)	-	2,509,993
Derivative financial assets held for hedging	Derivative financial assets held for hedging	80,469	-	-	80,469
		2,607,659	(17,197)	-	2,590,462
Loans	Financial assets at amortized cost	251,710,605	(132,255)	(289,070)	251,289,280
	Financial assets at fair value through profit or loss [3]	-	130,032	2,690	132,722
		251,710,605	(2,223)	(286,380)	251,422,002

Financial investments					
Available-for-sale financial assets: debt securities	Financial assets at fair value through other comprehensive income	27,605,761	(2,835,591)	-	24,770,170
	Financial assets at fair value through profit or loss [4]	-	2,549,706	-	2,549,706
	Financial assets at amortized cost[5]	-	2,835,591	4,118	2,839,709
Available-for-sale financial assets: equity securities	Financial assets at fair value through other comprehensive income	4,472,263	(2,587,853)	276	1,884,686
	Financial assets at fair value through profit or loss [6]	-	38,147	(89)	38,058
Available-for-sale financial assets: others	Financial assets at fair value through other comprehensive income	500	(500)	-	-
	Financial assets at fair value through profit or loss [7]	-	500	-	500
Held-to-maturity financial assets	Financial assets at amortized cost	8,737,150	(214,280)	(1,202)	8,521,668
	Financial assets at fair value through profit or loss [8]	-	214,280	(2,004)	212,276
		40,815,674	-	1,099	40,816,773
Other financial assets	Financial assets at amortized cost	6,341,463	(1,624)	(3,368)	6,336,471
		325,530,449	(21,044)	(290,179)	325,219,226

[1] Net of allowance.

[2] The deposits amounting to ₩ 1,908,070 million classified as loans and receivables in accordance with Korean IFRS 1039 were reclassified as financial assets at fair value through profit or loss because those financial assets did not meet the Solely Payments of Principal and Interest ("SPPI") condition.

[3] The loans amounting to ₩ 132,255 million classified as loans and receivables in accordance with Korean IFRS 1039 were reclassified as financial assets at fair value through profit or loss because those financial assets did not meet the SPPI condition.

[4] The equity securities amounting to ₩ 2,549,706 million classified as available-for-sale financial assets in accordance with Korean IFRS 1039 were reclassified as debt securities (financial assets at fair value through profit or loss) because those financial assets did not meet SPPI condition.

[5] The debt securities amounting to ₩ 2,835,591 million classified as available-for-sale financial assets in accordance with Korean IFRS 1039 were reclassified as financial assets at amortized cost because those financial assets met the business model condition which the Group holds the financial asset for the collection of the contractual cash flows, and SPPI condition.

[6] The equity securities amounting to ₩ 38,147 million classified as available-for-sale financial assets in accordance with Korean IFRS 1039 were reclassified as financial assets at fair value through profit or loss as the Group did not designate those equity securities as financial assets at fair value through other comprehensive income.

[7] Other securities amounting to ₩ 500 million classified as available-for-sale financial assets in accordance with Korean IFRS 1039 were reclassified as financial assets at fair value through profit or loss because those financial assets did not meet SPPI condition.

[8] The structured debt securities amounting to ₩ 214,280 million classified as held-to-maturity financial assets in accordance with Korean IFRS 1039 were reclassified as financial assets at fair value through profit or loss because those financial assets did not meet SPPI condition.

On the date of initial application, January 1, 2018, the measurement category of the financial liabilities in accordance with Korean IFRS 1039 and 1109, are as follows:

(In millions of Korean won)

Measurement categories		Carrying amounts			
December 31, 2017 (Korean IFRS 1039)	**January 1, 2018 (Korean IFRS 1109)**	**Korean IFRS 1039**	**Reclassification**	**Remeasurement**	**Korean IFRS 1109**
Financial liabilities held for trading	Financial liabilities at fair value through profit or loss	74,191	-	-	74,191
Derivative financial liabilities held for trading	Derivative financial liabilities held for trading	2,558,788	-	-	2,558,788
Derivative financial liabilities held for hedging	Derivative financial liabilities held for hedging	50,032	-	-	50,032
Deposits	Financial liabilities at amortized cost	252,478,931	-	-	252,478,931
Debts	Financial liabilities at amortized cost	15,810,753	-	-	15,810,753
Debentures	Financial liabilities at amortized cost	19,183,798	-	-	19,183,798
Other financial liabilities	Financial liabilities at amortized cost	12,733,354	(21,044)	-	12,712,310
		302,889,847	(21,044)	-	302,868,803

On the date of initial application, January 1, 2018, the classification of the financial assets by category in accordance with Korean IFRS 1109, are as follows:

(In millions of Korean won)

	January 1, 2018					
	Financial assets at fair value through profit or loss	**Debt securities at fair value through other comprehensive income**	**Equity securities at fair value through other comprehensive income**	**Financial assets at amortized cost[1]**	**Derivative financial instruments held for hedging**	**Total**
Cash and due from financial institutions	-	-	-	13,736,718	-	13,736,718
Financial assets at fair value through profit or loss	13,250,062	-	-	-	-	13,250,062
Derivative financial asset held for trading	2,509,993	-	-	-	-	2,509,993
Derivative financial asset held for hedging	-	-	-	-	80,469	80,469
Loans at amortized cost	-	-	-	251,289,280	-	251,289,280
Financial investments	-	24,770,170	1,884,686	11,361,377	-	38,016,233
Other financial assets	-	-	-	6,336,471	-	6,336,471
	15,760,055	24,770,170	1,884,686	282,723,846	80,469	325,219,226

[1] Net of allowance.

On the date of initial application, January 1, 2018, the reclassification from financial assets at fair value through profit or loss to financial assets at amortized cost or financial assets at fair value through other comprehensive income, does not exist.

On the date of initial application, January 1, 2018, the reclassification from certain financial assets, other than financial assets at amortized cost to financial assets at amortized cost, are as follows:

(In millions of Korean won)	**Measurement categories before reclassification**	**Fair value**	**Recognizable valuation gain or loss if not reclassified**
Currency stabilization bond	Available-for-sale	1,975,001	(248)
Asset backed securities	Available-for-sale	860,590	(4,046)
		2,835,591	(4,294)

On the date of initial application, January 1, 2018, the adjustments from the allowances/provision in accordance with Korean IFRS 1039 to the allowances/provision in accordance with Korean IFRS 1109, are as follows:

Measurement categories		**Allowances/Provision**			
December 31, 2017 (Korean IFRS 1039)	**January 1, 2018 (Korean IFRS 1109)**	**Korean IFRS 1039**	**Reclassification**	**Remeasurement**	**Korean IFRS1109**
Loans and receivables					
Due from financial institutions	Financial assets at amortized cost	-	-	1,530	1,530
Loans	Financial assets at amortized cost	1,378,113	-	289,070	1,667,183
	Financial assets at fair value through profit or loss	35,608	(35,608)	-	-
Other financial assets	Financial assets at amortized cost	49,722	-	3,368	53,090
Available-for-sale					
Debts securities	Financial assets at fair value through other comprehensive income	-	-	2,145	2,145
	Financial assets at amortized cost	-	-	176	176
Held-to-maturity securities					
Debts securities	Financial assets at amortized cost	-	-	1,202	1,202
		1,463,443	(35,608)	297,491	1,725,326
Unused commitment and guarantee					
Non-financial guarantee and unused commitment		195,772	-	4,940	200,712
		195,772	-	4,940	200,712
Financial guarantee		1,862	-	356	2,218
		1,862	-	356	2,218

On the date of initial application, January 1, 2018, the impacts on accumulated other comprehensive income due to financial assets at fair value through other comprehensive income and others, are as follows:

(In millions of Korean won)	**Impact of application**
December 31, 2017 (before adoption of Korean IFRS 1109)	678,094
Change of subsequent Measurement category: available-for-sale financial assets to financial assets at amortized cost	4,294
Change of subsequent Measurement category: available-for-sale financial assets to financial assets at fair value through profit or loss	(64,987)
Recognition of expected credit losses on debt securities at fair value through other comprehensive income	2,145
Reversal of impairment on equity securities at fair value through other comprehensive income	(612,647)
Valuation of fair value of equity securities accounted for under cost method	276
Change of gains (losses) from using equity method of associates and joint ventures	(5,709)
Change of gain/loss from foreign currency translation of foreign operations	1,932
Tax effect	184,605
January 1, 2018 (after adoption of Korean IFRS 1109)	188,003

On the date of initial application, January 1, 2018, the impact on retained earnings, is as follows:

(In millions of Korean won)	**Impact of application**
December 31, 2017 (before adoption of Korean IFRS 1109)	17,403,751
Change of subsequent Measurement category: available-for-sale financial assets to financial assets at fair value through profit or loss	64,987
Change of subsequent Measurement category: held-to-maturity financial assets to financial assets at fair value through profit or loss	(2,004)
Change of subsequent Measurement category: loans and receivables to financial assets at fair value through profit or loss	2,690
Recognition of expected credit losses on debt securities at fair value through other comprehensive income	(2,145)
Reversal of impairment on equity securities at fair value through other comprehensive income	612,647
Application of expected credit losses on financial assets at amortized cost	(295,346)
Application of expected credit losses on provisions	(5,296)
Valuation of fair value of equity securities accounted for under cost method	(89)
Change of gains (losses) from using equity method of associates and joint ventures	6,994
Change of gain/loss from foreign currency translation of foreign operations	(1,932)
Tax effect	(105,563)
January 1, 2018 (after adoption of Korean IFRS 1109)	17,678,694

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of Kookmin Bank

We have audited the accompanying consolidated financial statements of Kookmin Bank and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including 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 the 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 Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated 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 12, 2018

This report is effective as of March 12, 2018, 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, 2017 and 2016

(In millions of Korean won)	**Notes**	**2017**	**2016**
Assets			
Cash and due from financial institutions	4,6,7,36	15,646,318	14,681,846
Financial assets at fair value through profit or loss	4,6,8,12	8,408,730	7,956,232
Derivative financial assets	4,6,9	2,607,659	2,796,445
Loans	4,6,8,10,11	251,710,605	236,551,052
Financial investments	4,6,8,12	40,815,674	35,732,406
Investments in associates	13	345,892	367,976
Property and equipment	14	3,015,594	3,117,391
Investment property	14	337,500	372,880
Intangible assets	15	217,608	210,714
Current income tax assets	32	3,209	11,937
Deferred income tax assets	16,32	2,050	47,692
Assets held for sale	18	155,506	26,527
Other assets	4,6,17	6,499,582	5,193,272
Total assets		329,765,927	307,066,370
Liabilities			
Financial liabilities at fair value through profit or loss	4,6	74,191	73,238
Derivative financial liabilities	4,6,9	2,608,820	2,833,598
Deposits	4,6,19	252,478,931	235,736,034
Debts	4,6,20	15,810,753	15,934,409
Debentures	4,6,21	19,183,798	14,959,692
Provisions	22	358,192	425,284
Net defined benefit liabilities	23	8,568	71,167
Current income tax liabilities	32	3,543	5,357
Deferred income tax liabilities	16,32	172,131	19
Other liabilities	4,6,24,30	13,743,566	13,702,570
Total liabilities		304,442,493	283,741,368
Equity			
Capital stock	25	2,021,896	2,021,896
Capital surplus	25	5,219,693	5,219,704
Accumulated other comprehensive income	25,34	678,094	494,863
Retained earnings	25,33	17,403,751	15,588,539
(Provision of regulatory reserve for credit losses			
December 31, 2017 : 2,001,063 million			
December 31, 2016 : 1,835,115 million)			
(Amounts estimated to be appropriated			
December 31, 2017 : 149,709 million			
December 31, 2016 : 165,948 million)			
Equity attributable to Shareholder of the Bank		25,323,434	23,325,002
Non-controlling interest equity		-	-
Total equity		25,323,434	23,325,002
Total liabilities and equity		329,765,927	307,066,370

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, 2017 and 2016

(In millions of Korean won)	Notes	2017	2016
Interest income		8,338,424	7,894,156
Interest expense		(2,944,109)	(3,065,246)
Net interest income	26	5,394,315	4,828,910
Fee and commission income		1,471,480	1,310,382
Fee and commission expenses		(246,791)	(222,531)
Net fee and commission income	27	1,224,689	1,087,851
Net gains on financial assets/liabilities at fair value through profit or loss	28	99,262	196,898
Net other operating expenses	29	(288,087)	(401,050)
General and administrative expenses	14,15,23,30,40	(3,665,822)	(4,268,949)
Operating profit before provision for credit losses		2,764,357	1,443,660
Provision for credit losses	11,17,22	(115,166)	(254,329)
Operating profit		2,649,191	1,189,331
Share of profit of associates	13	37,571	17,615
Net other non-operating income(expenses)	31	(73,467)	49,311
Net non-operating profit		(35,896)	66,926
Profit before income tax expense		2,613,295	1,256,257
Income tax expense	32	(438,590)	(292,001)
Profit for the year		2,174,705	964,256
Other comprehensive income			
(Adjusted profit after provision of regulatory reserve for credit losses	25		
2017 : 2,024,996 million			
2016 : 798,308 million)			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liabilities	23	14,177	8,103
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(67,106)	(5,484)
Gains(losses) on valuation of financial investments		110,188	(1,853)
Share of other comprehensive income(loss) of associates		91,839	(231)
Loss on hedging instruments of net investments in foreign operations		26,719	(6,816)
Gains on cash flow hedging instruments		7,414	337
Other comprehensive income(loss) for the year net of tax	34	183,231	(5,944)
Total comprehensive income for the year		2,357,936	958,312
Profit attributable to:			
Shareholder of the Bank		2,174,705	964,256
Non-controlling interests		-	-
		2,174,705	964,256
Total comprehensive income for the year attributable to:			
Shareholder of the Bank		2,357,936	958,312
Non-controlling interests		-	-
		2,357,936	958,312

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, 2017 and 2016

(In millions of Korean won)	Attributable to Shareholder of the Bank: Capital Stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Non-controlling interests	Total Equity
Balance at January 1, 2016	2,021,896	5,219,704	500,807	15,004,804	-	22,747,211
Comprehensive income for the year						
Profit for the year	-	-	-	964,256	-	964,256
Remeasurements of net defined benefit liabilities	-	-	8,103	-	-	8,103
Currency translation differences	-	-	(5,484)	-	-	(5,484)
Losses on valuation of financial investments	-	-	(1,853)	-	-	(1,853)
Share of other comprehensive income of associates	-	-	(231)	-	-	(231)
Losses on hedging instruments of net investments in foreign operations	-	-	(6,816)	-	-	(6,816)
Gains on cash flow hedging instruments			337			337
Total comprehensive income for the year	-	-	(5,944)	964,256	-	958,312
Transactions with shareholder						
Dividends	-	-	-	(380,521)	-	(380,521)
Total transactions with shareholder	-	-	-	(380,521)	-	(380,521)
Balance at December 31, 2016	2,021,896	5,219,704	494,863	15,588,539	-	23,325,002
Balance at January 1, 2017	2,021,896	5,219,704	494,863	15,588,539	-	23,325,002
Comprehensive income for the year						
Profit for the year	-	-	-	2,174,705	-	2,174,705
Remeasurements of net defined benefit liabilities	-	-	14,177	-	-	14,177
Currency translation differences	-	-	(67,106)	-	-	(67,106)
Gains on valuation of financial investments	-	-	110,188	-	-	110,188
Share of other comprehensive income of associates	-	-	91,839	-	-	91,839
Gains on hedging instruments of net investments in foreign operations	-	-	26,719	-	-	26,719
Gains on cash flow hedging instruments			7,414			7,414
Total comprehensive income for the year	-	-	183,231	2,174,705	-	2,357,936
Transactions with shareholder						
Dividends	-	-	-	(359,493)	-	(359,493)
Changes in ownership interests in subsidiaries	-	(11)	-	-	-	(11)
Total transactions with shareholder	-	(11)	-	(359,493)	-	(359,504)
Balance at December 31, 2017	2,021,896	5,219,693	678,094	17,403,751	-	25,323,434

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, 2017 and 2016

(In millions of Korean won)	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		2,174,705	964,256
Adjustment for non-cash items			
Net losses(gains) on financial assets/liabilities at fair value through profit or loss		39,455	(13,371)
Net losses(gains) on derivative financial investments for hedging purposes		(17,327)	62,332
Adjustment of fair value of derivative financial instruments		(1,000)	338
Provision for credit losses		115,166	254,329
Net losses(gains) on financial investments		69,390	(119,516)
Share of profit of associates		(37,570)	(17,615)
Depreciation and amortization expense		236,436	219,934
Other net losses on property and equipment/intangible assets		15,258	4,828
Share-based payment		33,148	19,347
Post-employment benefits		147,470	160,650
Net interest income		274,832	328,731
Losses(gains) on foreign currency translation		(301,414)	204,143
Other expense(income)		47,666	(166)
		621,510	1,103,964
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(623,731)	(1,479,957)
Derivative financial instrument		(2,785)	24,221
Loans		(16,964,006)	(14,115,666)
Current income tax assets		8,728	6,389
Deferred income tax assets		44,807	(38,895)
Other assets		(2,439,559)	2,292,763
Financial liabilities at fair value through profit or loss		953	3,746
Deposits		17,722,080	11,267,180
Deferred income tax liabilities		83,671	(166,807)
Other liabilities		(1,360,225)	1,144,256
		(3,530,067)	(1,062,770)
Net cash inflow(outflow) from operating activities		(733,852)	1,005,450
Cash flows from investing activities			
Net cash flows from derivative financial instrument for hedging purposes		(23,490)	509
Disposal of financial investments		33,006,057	25,827,783
Acquisition of financial investments		(38,243,965)	(28,369,287)
Disposal of investments in associates		87,443	106,052
Acquisition of investments in associates		(23,540)	(28,727)
Disposal of property and equipment		(58)	806
Acquisition of property and equipment		(218,080)	(349,724)
Acquisition of investment property		(262)	(1,254)
Disposal of intangible assets		487	4,166
Acquisition of intangible assets		(51,398)	(73,970)
Net cash flows due to change in subsidiaries		158,858	-
Others		210,834	43,249
Net cash outflow from investing activities		(5,097,114)	(2,840,397)
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		5,804	21,169
Net increase in debts		746,719	1,452,671
Increase in debentures		13,594,668	5,244,976
Decrease in debentures		(9,026,842)	(6,322,089)
Payment of dividends		(359,493)	(380,521)
Net increase in other payables from trust accounts		587,523	1,639,779
Others		215,662	(36,679)
Net cash inflow from financing activities		5,764,041	1,619,306
Exchange gains(losses) on cash and cash equivalents		(193,279)	84,293
Net decrease in cash and cash equivalents		(260,204)	(131,348)
Cash and cash equivalents at the beginning of the year	36	6,338,158	6,469,506
Cash and cash equivalents at the end of the year	36	6,077,954	6,338,158

The accompanying notes are an integral part of these consolidated financial statements.

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 shareholder 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 at December 31, 2017, 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 at December 31, 2017, the Bank operates 1,062 domestic branches and offices, and five overseas branches (excluding five subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

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.

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.

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 2.4.

The Group newly applied the following amended and enacted standards and interpretations for the annual period beginning on January 1, 2017, and this application does not have a material impact on the consolidated financial statements.

- Amendments to Korean IFRS 1007 *Statement of Cash Flows*(Note 36)
- Amendments to Korean IFRS 1012 *Income Tax*
- Amendments to Korean IFRS 1112 *Disclosure of Interests in Other Entities: Exemption for consolidation of investee*

Also, new standards and interpretations issued but not effective for the financial period beginning January 1, 2017, and not early adopted are as follows:

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or it held indirectly through, an entity that is a venture capital organization, or a mutual fund and similar entities, the entity may elect to measure that investment at fair value through profit or loss. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. These amendments will be applied retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Group does not expect the amendments to have a significant impact on the consolidated financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.The Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

This amendment clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled and also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. These amendments will be applied retrospectively for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Enactments of Interpretation 2122 *Foreign Currency Transactions and Advance Consideration*

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the consolidated financial statements.

- Enactments of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, the entity is not required to restate prior periods in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules are amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

Within the Group, Korean IFRS 1109 Task Force Team ('TFT') has been set up to prepare for implementation of Korean IFRS 1109 since October 2015. There are three stages for implementation of Korean IFRS 1109, such as analysis, design and implementation, and preparation for application. The Group is analyzing financial impacts of Korean IFRS 1109 on its consolidated financial statements.

Stage	Period	Process
1	From Oct. to Dec. 2015 (for 3 months)	Analysis of GAAP differences and development of methodology
2	From Jan. to Dec. 2016 (for 12 months)	Development of methodology, definition of business requirement, and the system development and test.
3	From Jan. 2017 to Mar. 2018 (for 15 months)	Preparation for opening balances of the financial statements

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on retainable information as at December 31, 2017, and the results of the assessment are explained as below. The results from financial impact assessment as at December 31, 2017 may change due to additional information that the Group may obtain after the assessment.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

	Contractual cash flows characteristics	
Business model	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost [1]	Recognized at fair value through profit or loss [2]
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income [1]	
Hold for trading and others	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).
[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result in an increased fluctuation in profit or loss.

The following table presents the impact of the change in classification and measurement of financial instrument (including derivatives) held by the Group as at December 31, 2017, using the financial instrument accounting system developed by the Group with applying Korean IFRS 1109.

(In millions of Korean won)

Classification in accordance with		Balance in accordance with[1]	
Korean IFRS 1039	**Korean IFRS 1109**	**Korean IFRS 1039**	**Korean IFRS 1109**
Loans and receivables			
Cash and due from financial institutions	Measured at amortized cost	15,646,318	13,736,718
	Recognized at fair value through profit or loss	-	1,908,070
Loans	Measured at amortized cost	251,710,605	251,289,280
	Recognized at fair value through profit or loss[2]	-	132,722
Other financial assets	Measured at amortized cost	6,341,463	6,336,471
		273,698,386	273,403,261
Financial assets at fair value through profit or loss			
Equity securities	Recognized at fair value through profit or loss	338,904	121,949
Debt securities	Recognized at fair value through profit or loss	7,900,613	8,212,925
Others	Recognized at fair value through profit or loss	73,856	73,856
Financial assets designated at fair value through profit or loss	Recognized at fair value through profit or loss[3]	95,357	-
Derivative financial assets	Recognized at fair value through profit or loss	2,527,190	2,509,993
	Derivatives held for hedging	80,469	80,469
		11,016,389	10,999,192
Available-for-sale financial assets			
Equity securities	Recognized at fair value through other comprehensive income	4,472,263	1,884,686
	Recognized at fair value through profit or loss	-	38,058
Debt securities	Recognized at fair value through other comprehensive income	27,605,761	24,770,170
	Recognized at fair value through profit or loss	-	2,549,706
	Measured at amortized cost	-	2,839,709
Others	Recognized at fair value through other comprehensive income	500	-
	Recognized at fair value through profit or loss	-	500
		32,078,524	32,082,829
Held-to-maturity financial assets			
Debt securities	Measured at amortized cost	8,737,150	8,521,668
	Recognized at fair value through profit or loss	-	212,276
		8,737,150	8,733,944
		325,530,449	325,219,226

[1]The amount is presented net of allowance for loan losses.

[2]Loans with conversion right(related assets of ₩123,827 million and liabilities of ₩21,043 million), which were recognized separately in accordance with Korean IFRS 1039, are classified and measured as financial assets at fair value through profit or loss that amount to ₩102,496 million. Also loans of ₩27,242 million measured at amortized cost in accordance with Korean IFRS 1039, which of contractual cash flows do not represent solely payments of principal and interest, are classified and measured as financial assets at fair value through profit or loss that amount to ₩30,226 million.

[3]Derivatives-linked securities amount to ₩95,357 million classified as financial assets designated at fair value through profit or loss in accordance with Korean IFRS 1039, are reclassified as debt securities of fair value through profit or loss with implementation of Korean IFRS 1109, which means these financial assets are not designated at fair value through profit or loss any more.

With the implementation of Korean IFRS 1109, as at December 31, 2017, ₩2,253,068 million of loans and receivables and financial assets held-to-maturity, which are measured at amortized cost, and ₩2,588,264 million of financial assets available-for-sales are classified to financial assets recognize at fair value through profit or loss. These classifications will increase the financial assets recognized at fair value through profit or loss from 3.38% to 4.87% over the total financial assets (including derivatives) of ₩325,219,226 million, and may result an extended fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease.

Based on results from the impact assessment of Korean IFRS 1109, the Group expects that the application will have no impact on the financial statements because the Group had no financial liabilities designated as at fair value through profit or loss as at December 31, 2017.

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost,
- Debt investments measured at fair value through other comprehensive income
- Lease receivables, and
- Certain loan commitments and financial guaranteed contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage		Loss allowance
1	No significant increase in credit risk after initial recognition	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

Based on results from the impact assessment, the balances subject to loss allowances and the loss allowance amounts under Korean IFRS 1109 as at December 31, 2017 are as follows:

(In millions of Korean won)

Classification in accordance with		Loss allowance in accordance with		
Korean IFRS 1039	**Korean IFRS 1109**	**Korean IFRS 1039**	**Korean IFRS 1109**	**Changes**
Allowane for credit losses				
Loans and receivables				
Due from financial institutions	Measured at amortized cost	-	1,530	1,530
Loans	Measured at amortized cost	1,378,113	1,667,183	289,070
	Recognized at fair value through profit or loss	35,608	-	(35,608)
Other financial assets	Measured at amortized cost	49,722	53,090	3,368
Financial assets at fair value through profit or loss				
Debt securities	Recognized at fair value through other comprehensive income	-	2,145	2,145
	Measured at amortized cost	-	176	176
Available-for-sale financial assets				
Debt securities	Recognized at fair value through other comprehensive income	-	1,202	1,202
		1,463,443	1,725,326	261,883
Provision for unused commitments and non-financial guarantees				
Guarantees and unused commitments	Non-financial guarantees and unused commitments	195,772	200,712	4,940
		195,772	200,712	4,940
Provision for financial guarantee contracts				
Financial guarantee contracts		1,862	2,218	356
		1,862	2,218	356

Based on results from the impact assessment, the balances subject to loss allowances and the loss allowance amounts under Korean IFRS 1109 as at December 31, 2017 are as follows:

(In millions of Korean won)		Carrying amount	
		Balance	**Loss allowance in accordance with Korean IFRS 1109**
Loans [1]	Stage 1	229,155,052	355,257
	Stage 2	22,264,696	419,367
	Stage 3	1,545,599	900,464
Debt securities / Due from financial institutions		47,273,749	5,053
		300,239,096	1,680,141

[1] Balance includes other liabilities which subject to loss allowances in accordance with Korean IFRS 1109.

Based on results from the impact assessment, the amount of the provisions under Korean IFRS 1109 as at December 31, 2017 are as follows:

(In millions of Korean won)		Carrying amount
		Loss allowance in accordance with Korean IFRS 1109
Provisions	Stage 1	116,018
	Stage 2	68,168
	Stage 3	18,744
		202,930

Based on results from the financial impact assessment, the Group estimated that equity capital ratio in accordance with BaselIII standards will be decreased by 0.06%p from 16.01% to 15.95%.

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125 %) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

Furthermore, when the Group first applies Korean IFRS 1109, it may choose as its accounting policy to continue to apply all of the hedge accounting requirements of Korean IFRS 1039 instead of the requirements of Korean IFRS 1109.

As at December 31, 2017, the Group has not applied additional hedge accounting to risk management activities which did not meet the requirements of hedge accounting under Korean IFRS 1039, that will become applicable with new hedge accounting requirements of Korean IFRS 1109.

- Enactments of Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

Korean IFRS 1018 and other, the current standard, provide revenue recognition criteria by type of transactions; such as, sales goods, the rendering of services, interest income, royalty income, dividend income, and construction contracts. However, Korean IFRS 1115, the new standard, is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

The new standard is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

As at December 31, 2017, for the preparation of implementing Korean IFRS 1115, the Group formed a task force team consist of members from accounting departments, and also other practical departments if necessary. The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on retainable information as at December 31, 2017, and the Group expects that the application of Korean IFRS 1115 will not have material impact on the financial statements. The results of the assessment as at December 31, 2017 may change due to additional information that the Group may obtain after the assessment.

- Enactments of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the Group shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the Group shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the Group will not need to reassess all contracts with applying the practical expedient because the Group elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract.

A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below $ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Accounting for the Group, as a lessor, will not significantly change in comparison of Korean IFRS 1017.

The Group is analyzing the financial impact of the adoption of Korean IFRS 1116 on its consolidated financial statements.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

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 Bank’s functional and presentation currency. Refer to Notes 3.2

2.4 Critical Accounting 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 a 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.

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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests, if any. Total comprehensive income is attributed to the owners of the Bank 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.

The Group determines at each reporting period 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 'non-operating income(expense)' 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 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 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 consolidated 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 consolidated 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.

The Group classifies financial assets as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity 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.

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 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 entirely 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.

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 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 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 all of 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 an 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.

Objective evidence that a financial asset or group of assets is impaired includes 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 an 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 an 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 an 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).

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 an 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. The impairment loss on available-for-sale financial assets is directly deducted from the carrying amount.

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.

3.6.3 Held-to-Maturity Financial Assets

If there is an 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. 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. 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 and non-derivatives as hedging instruments to hedge the risk of changes in fair value and cash flow of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge and cash flow hedge). The Group designates certain derivatives and 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.

3.7.2 Fair Value Hedges

If derivatives and non-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 Cash Flow Hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and the ineffective portion is recognized in gain or loss. The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. Cash flow 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. When the cash flow hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income are reclassified to profit or loss over the year in which the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

3.7.4 Hedge of Net Investment

If derivatives and non-derivatives qualify for a net investment hedge, the effective portion of changes in fair value of hedging instrument is recognized in other comprehensive income 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 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*.

3.7.5 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.

3.7.6 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.

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 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.

The depreciation method and estimated useful lives of the assets are as follows:

Investment Properties	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	2 ~ 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 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.

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.

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 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.

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.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires 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.

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.

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 negotiation or participation in negotiation for the third party such as trading stocks or other securities, arranging transfer and acquisition of business is recognized as revenue when the transaction has been completed.

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.

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.

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 period.

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.

3.20.3 Share-based Payment

The Group has share grant and mileage stock programs to directors and employees of the Group. The Group has a choice of whether to settle share grant in cash or by issuing equity instruments of KB Financial Group Inc., the ultimate parent company, at the date of settlement, while the Group shall settle the mileage stock in cash based on the stock price.

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 fair value of the employee service is recognized as expense and accrued expenses over the vesting period. Also, the Group accounts for the mileage stock in accordance with the requirements of cash-settled share-based payment transactions, and recognizes the corresponding liability and expenses at the vesting period.

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.

Income tax expense for the period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

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 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.

Deferred tax assets and liabilities shall be 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 tax liabilities and deferred tax assets shall reflect 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 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.

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, additional tax and additional dues on tax refund are recognized in accordance with Korean IFRS 1037 as its economic substances are considered as interest or penalties.

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.

This 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 management. 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 types of risk, 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 Internal 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 establishes policies and procedures for risk management of the Group.

Risk Management Subcommittee

The Risk Management Subcommittee 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 approves exotic and hybrid products accompanying credit risk and reviews newly developed products accompanying credit risk. Also, it reviews and approves the exposure limits by industry.

- 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 internal capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and internal capital as a management indicator. The Group manages credit risk by allocating credit risk internal 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, retail customer group and SME/SOHO customer group, which are independent from the sales department, are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. The credit risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk internal 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 at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Financial assets		
Due from financial institutions	13,048,893	12,126,695
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	7,974,469	7,765,467
Financial assets designated at fair value through profit or loss	95,357	129,535
Derivatives	2,607,659	2,796,445
Loans[2]	251,710,605	236,551,052
Financial investments		
Available-for-sale financial assets	27,605,761	21,807,445
Held-to-maturity financial assets	8,737,150	8,427,498
Other financial assets[2]	6,341,463	5,021,200
	318,121,357	294,625,337
Off-balance sheet items		
Acceptances and guarantees contracts	6,977,468	7,552,124
Financial guarantee contracts	2,968,354	3,361,307
Commitments	50,851,024	54,261,648
	60,796,846	65,175,079
	378,918,203	359,800,416

[1]The amounts of ₩73,856 million and ₩72,349 million as at December 31, 2017 and 2016, 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.

Loans are categorized as follows:

(In millions of Korean won)

	2017					
	Retail		Corporate		Total	
Loans	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	129,231,082	99.04	121,257,211	98.88	250,488,293	98.96
Past due but not impaired	865,485	0.66	198,270	0.16	1,063,755	0.42
Impaired	389,552	0.30	1,182,726	0.96	1,572,278	0.62
	130,486,119	100.00	122,638,207	100.00	253,124,326	100.00
Allowances	(318,533)	0.24	(1,095,188)	0.89	(1,413,721)	0.56
Carrying amount	130,167,586		121,543,019		251,710,605	

(In millions of Korean won)

	2016					
	Retail		Corporate		Total	
Loans	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Neither past due nor impaired	122,595,003	98.96	112,711,155	98.64	235,306,158	98.81
Past due but not impaired	825,239	0.67	191,029	0.17	1,016,268	0.43
Impaired	457,086	0.37	1,367,151	1.19	1,824,237	0.76
	123,877,328	100.00	114,269,335	100.00	238,146,663	100.00
Allowances	(333,269)	0.27	(1,262,342)	1.10	(1,595,611)	0.67
Carrying amount	123,544,059		113,006,993		236,551,052	

Credit qualities of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2017		
	Retail	**Corporate**	**Total**
Grade 1	115,311,505	62,287,457	177,598,962
Grade 2	12,537,698	52,057,018	64,594,716
Grade 3	804,042	5,341,955	6,145,997
Grade 4	398,177	1,253,960	1,652,137
Grade 5	179,660	316,821	496,481
	129,231,082	121,257,211	250,488,293

(In millions of Korean won)

	2016		
	Retail	**Corporate**	**Total**
Grade 1	106,054,765	53,999,305	160,054,070
Grade 2	14,292,822	49,186,970	63,479,792
Grade 3	1,519,409	7,563,785	9,083,194
Grade 4	516,670	1,614,152	2,130,822
Grade 5	211,337	346,943	558,280
	122,595,003	112,711,155	235,306,158

Credit qualities 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

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2017			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	736,264	87,901	41,320	865,485
Corporate	154,706	26,654	16,910	198,270
	890,970	114,555	58,230	1,063,755

(In millions of Korean won)

	2016			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	705,551	79,990	39,698	825,239
Corporate	130,005	38,210	22,814	191,029
	835,556	118,200	62,512	1,016,268

Impaired loans are as follows:

(In millions of Korean won)

	2017		
	Retail	**Corporate**	**Total**
Loans	389,552	1,182,726	1,572,278
Allowances	(126,691)	(771,131)	(897,822)
Individual	-	(684,377)	(684,377)
Collective	(126,691)	(86,754)	(213,445)
	262,861	411,595	674,456

(In millions of Korean won)

	2016		
	Retail	**Corporate**	**Total**
Loans	457,086	1,367,151	1,824,237
Allowances	(146,507)	(894,227)	(1,040,734)
Individual	-	(770,805)	(770,805)
Collective	(146,507)	(123,422)	(269,929)
	310,579	472,924	783,503

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)

	2017				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	17,257	107,610	198,379	57,399,810	57,723,056
Deposits and savings	10,501	5,375	23,126	1,576,897	1,615,899
Property and equipment	125	456	43	2,091,917	2,092,541
Real estate	96,010	271,937	638,044	145,583,507	146,589,498
	123,893	385,378	859,592	206,652,131	208,020,994

(In millions of Korean won)

	2016				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	21,168	118,611	186,762	52,128,706	52,455,247
Deposits and savings	10,000	6,026	27,493	1,574,010	1,617,529
Property and equipment	4,280	1,531	142	1,735,898	1,741,851
Real estate	169,837	317,314	588,736	136,804,042	137,879,929
	205,285	443,482	803,133	192,242,656	193,694,556

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 as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Securities that are neither past due nor impaired	44,338,881	38,057,596
Impaired securities	-	-
	44,338,881	38,057,596

The credit quality of securities, excluding equity securities that are neither past due nor impaired, as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)

	2017					
	Grade 1	**Grade 2**	**Grade 3**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	6,525,798	1,304,926	44,157	25,732	-	7,900,613
Financial assets designated at fair value through profit or loss	95,357	-	-	-	-	95,357
Available-for-sale financial assets	27,433,166	144,312	25,762	2,521	-	27,605,761
Held-to-maturity financial assets	8,737,150	-	-	-	-	8,737,150
	42,791,471	1,449,238	69,919	28,253	-	44,338,881

(In millions of Korean won)

	2016					
	Grade 1	**Grade 2**	**Grade 3**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	6,313,489	1,373,625	6,004	-	-	7,693,118
Financial assets designated at fair value through profit or loss	129,535	-	-	-	-	129,535
Available-for-sale financial assets	21,655,179	123,614	28,652	-	-	21,807,445
Held-to-maturity financial assets	8,427,498	-	-	-	-	8,427,498
	36,525,701	1,497,239	34,656	-	-	38,057,596

The credit qualities of securities excluding equity securities according to the credit ratings by external rating agencies are as follows:

Credit	Domestic			Foreign		
quality	KIS	NICE P&I	FN	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 at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017	2016
Deposits and savings, securities and others	1,198,373	444,170

4.2.7 Credit Risk Concentration Analysis

Details of the Group's loans by country as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017					
	Retail	Corporate	Total	%	Allowances	Carrying Amount
Korea	130,390,627	119,273,608	249,664,235	98.63	(1,369,907)	248,294,328
China	-	1,867,380	1,867,380	0.74	(30,720)	1,836,660
Japan	539	127,009	127,548	0.05	(6,268)	121,280
United States	-	866,867	866,867	0.34	(1,599)	865,268
Europe	-	192,980	192,980	0.08	(2,326)	190,654
Others	94,953	310,363	405,316	0.16	(2,901)	402,415
Total	130,486,119	122,638,207	253,124,326	100.00	(1,413,721)	251,710,605

(In millions of Korean won)

	2016					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	123,804,999	111,399,307	235,204,306	98.76	(1,554,872)	233,649,434
China	-	1,324,839	1,324,839	0.56	(23,288)	1,301,551
Japan	1,352	90,977	92,329	0.04	(10,384)	81,945
United States	-	984,472	984,472	0.41	(2,031)	982,441
Europe	1	206,580	206,581	0.09	(1,719)	204,862
Others	70,976	263,160	334,136	0.14	(3,317)	330,819
Total	123,877,328	114,269,335	238,146,663	100.00	(1,595,611)	236,551,052

Details of the Group's corporate loans by industry as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	9,041,823	7.38	(6,265)	9,035,558
Manufacturing	39,127,515	31.90	(434,349)	38,693,166
Service	52,794,807	43.05	(281,847)	52,512,960
Wholesale and retail	14,620,777	11.92	(85,972)	14,534,805
Construction	2,538,256	2.07	(269,185)	2,269,071
Public	834,687	0.68	(2,911)	831,776
Others	3,680,342	3.00	(14,659)	3,665,683
	122,638,207	100.00	(1,095,188)	121,543,019

(In millions of Korean won)

	2016			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	8,789,886	7.69	(4,170)	8,785,716
Manufacturing	36,381,882	31.85	(530,456)	35,851,426
Service	47,905,220	41.92	(298,079)	47,607,141
Wholesale and retail	13,865,864	12.13	(108,688)	13,757,176
Construction	2,895,971	2.53	(291,646)	2,604,325
Public	855,715	0.75	(6,307)	849,408
Others	3,574,797	3.13	(22,996)	3,551,801
	114,269,335	100.00	(1,262,342)	113,006,993

Details of the Group's retail loans by type as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	62,319,992	47.76	(14,914)	62,305,078
General purpose	68,166,127	52.24	(303,619)	67,862,508
	130,486,119	100.00	(318,533)	130,167,586

(In millions of Korean won)	2016			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	58,724,113	47.41	(17,939)	58,706,174
General purpose	65,153,215	52.59	(315,330)	64,837,885
	123,877,328	100.00	(333,269)	123,544,059

Details of the Group's securities excluding equity securities and derivative financial instruments by industry as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	2,408,760	30.49
Finance and Insurance	3,876,344	49.06
Others	1,615,509	20.45
	7,900,613	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	95,357	100.00
	95,357	100.00
Derivative financial assets		
Government and government funded institutions	12,099	0.47
Finance and Insurance	2,464,286	94.50
Others	131,274	5.03
	2,607,659	100.00
Available-for-sale financial assets		
Government and government funded institutions	8,188,744	29.67
Finance and Insurance	18,044,307	65.36
Others	1,372,710	4.97
	27,605,761	100.00
Held-to-maturity financial assets		
Government and government funded institutions	2,563,480	29.34
Finance and Insurance	6,073,478	69.51
Others	100,192	1.15
	8,737,150	100.00
	46,946,540	

(In millions of Korean won)	2016	
	Amount	**%**
Financial assets held for trading		
Government and government funded institutions	2,780,010	36.14
Finance and Insurance	3,880,523	50.44
Others	1,032,585	13.42
	7,693,118	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	129,535	100.00
	129,535	100.00
Derivative financial assets		
Government and government funded institutions	91,705	3.28
Finance and Insurance	2,501,525	89.45
Others	203,215	7.27
	2,796,445	100.00
Available-for-sale financial assets		
Government and government funded institutions	9,394,127	43.08
Finance and Insurance	11,099,951	50.90
Others	1,313,367	6.02
	21,807,445	100.00
Held-to-maturity financial assets		
Government and government funded institutions	3,166,355	37.57
Finance and Insurance	5,110,783	60.64
Others	150,360	1.79
	8,427,498	100.00
	40,854,041	

Details of the Group's securities excluding equity securities and derivative financial instruments by country, as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	
	Amount	**%**
Financial assets held for trading		
Korea	7,021,083	88.87
Others	879,530	11.13
	7,900,613	100.00
Financial assets designated at fair value through profit or loss		
Korea	95,357	100.00
	95,357	100.00
Derivative financial assets		
Korea	1,266,612	48.57
United States	303,283	11.63
United Kingdom	52,781	2.02
France	303,883	11.65
Others	681,100	26.13
	2,607,659	100.00
Available-for-sale financial assets		
Korea	27,006,817	97.83
Others	598,944	2.17
	27,605,761	100.00
Held-to-maturity financial assets		
Korea	7,647,772	87.53
Others	1,089,378	12.47
	8,737,150	100.00
	46,946,540	

(In millions of Korean won)	2016	
	Amount	**%**
Financial assets held for trading		
Korea	7,468,314	97.08
Others	224,804	2.92
	7,693,118	100.00
Financial assets designated at fair value through profit or loss		
Korea	129,535	100.00
	129,535	100.00
Derivative financial assets		
Korea	1,955,822	69.94
United States	242,763	8.68
United Kingdom	117,318	4.20
France	202,001	7.22
Others	278,541	9.96
	2,796,445	100.00
Available-for-sale financial assets		
Korea	21,377,838	98.03
Others	429,607	1.97
	21,807,445	100.00
Held-to-maturity financial assets		
Korea	7,279,423	86.38
Others	1,148,075	13.62
	8,427,498	100.00
	40,854,041	

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.

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging, as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017						
	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]	5,716,586	399,460	140,676	159,353	-	-	6,416,075
Financial assets held for trading[2]	8,313,373	-	-	-	-	-	8,313,373
Financial assets designated at fair value through profit or loss[2]	95,357	-	-	-	-	-	95,357
Derivatives held for trading[2]	2,509,930	-	-	-	-	-	2,509,930
Derivatives held for fair value hedging[3]	-	21,489	2,722	2,647	(5,017)	52,698	74,539
Loans	-	14,978,083	26,503,526	96,536,587	62,850,146	89,830,481	290,698,823
Available-for-sale financial assets[4]	6,056,352	1,486,656	2,111,060	9,396,840	15,050,896	791,200	34,893,004
Held-to-maturity financial assets	-	584,825	388,928	2,608,727	4,343,586	1,986,169	9,912,235
Other financial assets	291	4,604,953	-	1,042,830	-	-	5,648,074
	22,691,889	22,075,466	29,146,912	109,746,984	82,239,611	92,660,548	358,561,410
Financial liabilities							
Financial liabilities held for trading[2]	74,191	-	-	-	-	-	74,191
Derivatives held for trading[2]	2,558,786	-	-	-	-	-	2,558,786
Derivatives held for fair value hedging[3]	-	4,176	(4,715)	(19,705)	(7,144)	244	(27,144)
Deposits[5]	124,342,154	12,319,041	23,092,872	82,158,996	11,320,759	2,801,348	256,035,170
Debts	936	3,843,258	1,871,117	5,325,664	4,462,359	573,088	16,076,422
Debentures	40,655	540,471	1,218,396	5,425,995	11,524,310	1,536,151	20,285,978
Other financial liabilities	-	10,055,251	774	74,577	6,794	218,097	10,355,493
	127,016,722	26,762,197	26,178,444	92,965,527	27,307,078	5,128,928	305,358,896
Off-balance sheet items							
Commitments[6]	50,851,024	-	-	-	-	-	50,851,024
Financial guarantee contracts[7]	2,968,354	-	-	-	-	-	2,968,354
	53,819,378	-	-	-	-	-	53,819,378

(In millions of Korean won)	2016						
	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]	6,146,827	158,794	302,774	221,887	-	-	6,830,282
Financial assets held for trading[2]	7,826,697	-	-	-	-	-	7,826,697
Financial assets designated at fair value through profit or loss[2]	129,535	-	-	-	-	-	129,535
Derivatives held for trading[2]	2,736,840	-	-	-	-	-	2,736,840
Derivatives held for fair value hedging[3]	-	4,039	1,722	1,791	(3,473)	53,185	57,264
Loans	-	14,900,098	23,401,467	82,205,491	64,172,410	88,571,195	273,250,661
Available-for-sale financial assets[4]	6,014,328	535,451	1,542,125	5,506,765	13,070,553	2,365,520	29,034,742
Held-to-maturity financial assets	-	172,694	408,549	1,035,711	4,918,815	3,426,234	9,962,003
Other financial assets	-	3,225,789	-	1,122,047	-	-	4,347,836
	22,854,227	18,996,865	25,656,637	90,093,692	82,158,305	94,416,134	334,175,860
Financial liabilities							
Financial liabilities held for trading[2]	73,238	-	-	-	-	-	73,238
Derivatives held for trading[2]	2,769,675	-	-	-	-	-	2,769,675
Derivatives held for fair value hedging[3]	-	3,462	(5,306)	(8,333)	(39,870)	-	(50,047)
Deposits[5]	114,690,384	13,828,525	24,751,241	71,868,404	10,294,522	3,790,529	239,223,605
Debts	1,027	5,504,309	2,218,672	4,120,280	4,224,025	116,023	16,184,336
Debentures	52,188	1,281,867	1,383,926	3,773,687	7,192,288	2,306,476	15,990,432
Other financial liabilities	-	9,522,926	717	77,912	10,758	82,421	9,694,734
	117,586,512	30,141,089	28,349,250	79,831,950	21,681,723	6,295,449	283,885,973
Off-balance sheet items							
Commitments[6]	54,261,648	-	-	-	-	-	54,261,648
Financial guarantee contracts[7]	3,361,307	-	-	-	-	-	3,361,307
	57,622,955	-	-	-	-	-	57,622,955

[1] The amounts of ₩9,240,008 million and ₩7,859,440 million, which are restricted amount due from the financial institutions as at December 31, 2017 and 2016, respectively, are excluded.

[2] Financial assets held for trading, financial assets designated at fair value through profit or loss, financial liabilities 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. However, the cash flows of the embedded derivatives (e.g. conversion options and others) which are separated from their host contracts are considered in the cash flows of the host contracts.

[3] Derivative instruments held for 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 based on the earliest period that the contracts can be executed.

The remaining contractual cash flows of derivatives held for cash flow hedging as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash flow to be received of net settlement derivatives	2	198	488	104	-	792
Cash flow to be paid of net settlement derivatives	94	536	1,444	5,852	-	7,926

(In millions of Korean won)	**2016**					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash flow to be received of net settlement derivatives	69	-	152	-	-	221
Cash flow to be paid of net settlement derivatives	60	3	-	-	-	63

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 internal 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 Asset-Liability Management Committee (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 Council monitors 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 EaR, 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 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 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 during 2017 and 2016, is as follows:

(In millions of Korean won)	**2017**			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	22,682	14,313	42,155	23,758
Stock price risk	1,002	757	1,345	1,255
Foreign exchange rate risk	32,709	12,405	44,322	24,315
Deduction of diversification effect				(29,727)
Total VaR	23,312	16,498	30,247	19,601

(In millions of Korean won)	**2016**			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	15,683	10,817	19,538	14,906
Stock price risk	1,757	726	2,269	1,201
Foreign exchange rate risk	16,493	10,123	22,206	10,123
Deduction of diversification effect				(6,477)
Total VaR	19,018	11,558	28,519	19,753

The required equity capital using the standard method related to the positions which are not measured by VaR as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	**2017**	**2016**
Interest rate risk	98,235	15,162
Stock price risk	1,646	4,817
Foreign exchange rate risk	810	-
	100,691	19,979

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 portfolios 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 portfolios 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 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 99.90%(December 31, 2016 : 99.90%) confidence level. The measurement results of risk as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Interest Rate VaR	350,178	75,990

4.4.5 Financial Assets and Liabilities in Foreign Currencies

Financial assets and liabilities in foreign currencies as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	1,509,387	250,933	131,100	19,779	815,014	236,570	2,962,783
Financial assets held for trading	1,044,336	83,716	81,394	8,922	-	18,145	1,236,513
Derivatives held for trading	78,769	441	52	-	96	202	79,560
Derivatives held for hedging	29,489	-	-	-	-	-	29,489
Loans	10,605,408	228,747	1,503,493	9,548	795,302	220,859	13,363,357
Available-for-sale financial assets	2,189,461	76,185	38,936	-	38,606	20,666	2,363,854
Held-to-maturity financial assets	1,084,474	-	-	-	4,905	-	1,089,379
Other financial assets	1,509,793	452,446	406,009	13,101	199,422	201,173	2,781,944
	18,051,117	1,092,468	2,160,984	51,350	1,853,345	697,615	23,906,879
Financial liabilities							
Derivatives held for trading	56,598	-	35	-	3,563	-	60,196
Derivatives held for hedging	49,962	-	-	-	-	-	49,962
Deposits	8,343,862	757,704	437,881	39,990	1,096,430	573,326	11,249,193
Debts	7,130,892	44,885	77,604	737	-	10,483	7,264,601
Debentures	2,940,251	-	-	-	-	-	2,940,251
Other financial liabilities	2,183,242	43,671	887,197	3,338	198,043	28,647	3,344,138
	20,704,807	846,260	1,402,717	44,065	1,298,036	612,456	24,908,341
Off-balance sheet items	11,304,709	705	2,404	-	257,940	12,823	11,578,581

(In millions of Korean won)	2016						
	USD	JPY	EUR	GBP	CNY	Others	Total
Financial assets							
Cash and due from financial institutions	2,059,412	208,000	147,467	17,224	600,682	257,095	3,289,880
Financial assets held for trading	158,599	123,733	2,545	-	-	-	284,877
Derivatives held for trading	71,843	-	-	-	-	-	71,843
Derivatives held for hedging	5,917	-	-	-	-	-	5,917
Loans	10,762,600	342,100	895,208	5,798	552,966	178,361	12,737,033
Available-for-sale financial assets	1,508,838	91,017	-	-	35,873	871	1,636,599
Held-to-maturity financial assets	1,148,075	-	-	-	-	-	1,148,075
Other financial assets	916,058	245,827	35,981	30,792	172,437	85,899	1,486,994
	16,631,342	1,010,677	1,081,201	53,814	1,361,958	522,226	20,661,218
Financial liabilities							
Derivatives held for trading	73,379	-	29	-	-	-	73,408
Derivatives held for hedging	63,634	-	-	-	-	-	63,634
Deposits	6,965,320	596,607	457,418	52,719	791,027	399,516	9,262,607
Debts	6,828,519	169,507	83,105	279	85,123	37,492	7,204,025
Debentures	3,468,940	-	-	-	-	-	3,468,940
Other financial liabilities	1,447,380	52,275	534,224	1,429	176,381	50,735	2,262,424
	18,847,172	818,389	1,074,776	54,427	1,052,531	487,743	22,335,038
Off-balance sheet items	13,072,623	822	1,268	-	131,210	75,500	13,281,423

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 timely feedback to management so that eventually mitigate operational risk of the Group. 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 Management

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%, a minimum Tier 1 ratio of 6.0% and a minimum Total Regulatory Capital of 8.0% as at December 31, 2017. Capital Conservation Buffer of 1.25% and Capital Requirement of Domestic Systemically Important Bank(D-SIB) of 0.5% are additionally applied. Therefore, the Group is required to maintain a capital ratio including a minimum capital ratio and additional capital requirements (a Common Equity Tier 1 Ratio of 6.25% (December 31, 2016 : 5.375%), a Tier 1 Ratio of 7.75% (December 31, 2016 : 6.875%), and a Total Regulatory Capital Ratio of 9.75% (December 31, 2016 : 8.875%)).

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. The Group complied with external capital adequacy requirements as at December 31, 2017 and 2016.

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 internal 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 internal capital is calculated by adding the stress testing results and other required items to the total internal capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group's risk appetite and allocates internal capital by risk type and business group. Each business group efficiently operates its capital within range of granted internal capital. The Risk Management Department of the Group monitors a management of the limit on internal 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 internal capital is expected to exceed the limits.

Details of the Group's capital adequacy calculation in line with Basel III requirements as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Equity Capital	25,913,677	24,578,862
Tier I Capital	24,040,408	22,343,308
Common Equity Tier 1 Capital	24,040,408	22,343,308
Tier II Capital	1,873,269	2,235,554
Risk-weighted assets:	161,824,686	150,648,459
Credit risk[1]	145,958,874	136,469,707
Market risk[2]	5,746,686	3,883,542
Operational risk[3]	10,119,126	10,295,210
Equity Capital (%):	16.01	16.32
Tier I Capital (%)	14.86	14.83
Common Equity Tier 1 Capital (%)	14.86	14.83

[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.

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.

Financial information by business segment as at and for the year ended December 31, 2017 is as follows:

(In millions of Korean won)	2017				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	2,080,531	2,710,798	1,638,850	-	6,430,179
Segment operating revenues(expenses)	29,935	-	6,409	(36,344)	-
	2,110,466	2,710,798	1,645,259	(36,344)	6,430,179
Net interest income	2,555,780	2,647,768	190,589	178	5,394,315
Interest income	3,584,021	3,935,895	832,269	(13,761)	8,338,424
Interest expense	(1,028,241)	(1,288,127)	(641,680)	13,939	(2,944,109)
Net fee and commission income	235,210	595,322	406,141	(11,984)	1,224,689
Fee and commission income	315,994	668,227	506,331	(19,072)	1,471,480
Fee and commission expense	(80,784)	(72,905)	(100,190)	7,088	(246,791)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	(1,750)	-	110,617	(9,605)	99,262
Net other operating income(expenses)	(678,774)	(532,292)	937,912	(14,933)	(288,087)
General and administrative expenses	(974,096)	(1,946,640)	(747,783)	2,697	(3,665,822)
Operating profit before provision for credit losses	1,136,370	764,158	897,476	(33,647)	2,764,357
Provision(reversal) for credit losses	6,918	(122,107)	(466)	489	(115,166)
Operating profit	1,143,288	642,051	897,010	(33,158)	2,649,191
Share of profit of associates	-	-	37,571	-	37,571
Net other non-operating income(expenses)	1,873	-	145,889	(221,229)	(73,467)
Segment profit before income tax expense	1,145,161	642,051	1,080,470	(254,387)	2,613,295
Income tax expense	(181,936)	(102,059)	(144,781)	(9,814)	(438,590)
Profit for the period	963,225	539,992	935,689	(264,201)	2,174,705
Profit attributable to shareholder of the Bank	963,225	539,992	935,689	(264,201)	2,174,705
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	117,904,269	129,438,168	86,034,586	(3,611,096)	329,765,927
Total liabilities[1]	102,224,405	147,870,309	55,552,078	(1,204,299)	304,442,493

[1] Amounts before intra-group transaction adjustment.

Financial information by business segment as at and for the year ended December 31, 2016 is as follows:

(In millions of Korean won)	2016				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	1,797,670	2,248,035	1,666,904	-	5,712,609
Segment operating revenues(expenses)	14,808	-	(13,081)	(1,727)	-
	1,812,478	2,248,035	1,653,823	(1,727)	5,712,609
Net interest income	2,286,347	2,353,232	189,372	(41)	4,828,910
Interest income	3,297,791	3,740,601	868,379	(12,615)	7,894,156
Interest expense	(1,011,444)	(1,387,369)	(679,007)	12,574	(3,065,246)
Net fee and commission income	231,182	504,259	367,974	(15,564)	1,087,851
Fee and commission income	293,336	583,048	453,079	(19,081)	1,310,382
Fee and commission expense	(62,154)	(78,789)	(85,105)	3,517	(222,531)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	(1,166)	-	198,064	-	196,898
Net other operating income(expenses)	(703,885)	(609,456)	898,413	13,878	(401,050)
General and administrative expenses	(950,038)	(2,102,384)	(1,217,963)	1,436	(4,268,949)
Operating profit before provision for credit losses	862,440	145,651	435,860	(291)	1,443,660
Provision(reversal) for credit losses	(278,277)	(2,615)	32,925	(6,362)	(254,329)
Operating profit	584,163	143,036	468,785	(6,653)	1,189,331
Share of profit of associates	-	-	17,615	-	17,615
Net other non-operating income(expenses)	(1,300)	-	90,551	(39,940)	49,311
Segment profit before income tax expense	582,863	143,036	576,951	(46,593)	1,256,257
Income tax expense	(140,910)	(34,614)	(113,231)	(3,246)	(292,001)
Profit for the period	441,953	108,422	463,720	(49,839)	964,256
Profit attributable to shareholder of the Bank	441,953	108,422	463,720	(49,839)	964,256
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	109,500,342	122,806,490	78,135,238	(3,375,700)	307,066,370
Total liabilities[1]	91,685,643	140,082,958	53,951,579	(1,978,812)	283,741,368

[1] Amounts before intra-group transaction adjustment.

5.2 Services and Geographical Segments

5.2.1 Services Information

Operating revenues from external customers by services for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Corporate banking service	2,080,531	1,797,670
Retail banking service	2,710,798	2,248,035
Other service	1,638,850	1,666,904
	6,430,179	5,712,609

5.2.2 Geographical Information

Geographical operating revenues from external customers for the years ended December 31, 2017 and 2016, and major non-current assets as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**		**2016**	
	Revenues from external customers	**Major non-current assets**	**Revenues from external customers**	**Major non-current assets**
Domestic	6,339,930	3,562,722	5,621,130	3,691,841
United States	9,889	161	10,955	282
New Zealand	5,855	57	5,422	128
China	44,989	3,432	48,162	3,925
Japan	4,425	1,377	5,624	1,964
Myanmar	593	653	-	-
Vietnam	5,474	228	4,220	278
Cambodia	7,476	1,753	6,109	1,216
United Kingdom	11,548	319	10,987	149
Intra-group adjustment	-	-	-	1,202
	6,430,179	3,570,702	5,712,609	3,700,985

6. Financial Assets and Financial Liabilities

6.1 Classification and Fair Value

Carrying amount and fair values of financial assets and liabilities as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and due from financial institutions	15,646,318	15,646,654	14,681,846	14,682,043
Financial assets held for trading	8,313,373	8,313,373	7,826,697	7,826,697
Debt securities	7,900,613	7,900,613	7,693,118	7,693,118
Equity securities	338,904	338,904	61,230	61,230
Others	73,856	73,856	72,349	72,349
Financial assets designated at fair value through profit or loss	95,357	95,357	129,535	129,535
Derivative linked securities	95,357	95,357	129,535	129,535
Derivatives held for trading	2,527,190	2,527,190	2,745,979	2,745,979
Derivatives held for hedging	80,469	80,469	50,466	50,466
Loans	251,710,605	251,173,805	236,551,052	236,227,582
Available-for-sale financial assets	32,078,524	32,078,524	27,304,908	27,304,908
Debt securities	27,605,761	27,605,761	21,807,445	21,807,445
Equity securities	4,472,263	4,472,263	5,496,963	5,496,963
Others	500	500	500	500
Held-to-maturity financial assets	8,737,150	8,774,918	8,427,498	8,578,025
Other financial assets	6,341,463	6,341,463	5,021,200	5,021,200
	325,530,449	325,031,753	302,739,181	302,566,435
Financial liabilities				
Financial liabilities held for trading	74,191	74,191	73,238	73,238
Derivatives held for trading	2,558,788	2,558,788	2,769,718	2,769,718
Derivatives held for hedging	50,032	50,032	63,880	63,880
Deposits	252,478,931	252,901,505	235,736,034	236,297,685
Debts	15,810,753	15,808,759	15,934,409	15,937,153
Debentures	19,183,798	19,409,286	14,959,692	15,334,856
Other financial liabilities	12,733,354	12,733,360	12,097,059	12,097,068
	302,889,847	303,535,921	281,634,030	282,573,598

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.

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, the Monte Carlo Simulation and the Tree model or independent third-party valuation service. For OTC derivatives, the credit risk of counterparty and the Group's own credit risk are applied through Credit Valuation Adjustment(CVA).
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 (DCF Model) 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.

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.

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 at December 31, 2017 and 2016, is as follows:

	2017			
(In millions of Korean won)	**Fair value hierarchy**			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading				
Debt securities	2,276,513	5,624,100	-	7,900,613
Equity securities	299,564	39,340	-	338,904
Others	73,856	-	-	73,856
	2,649,933	5,663,440	-	8,313,373
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	95,357	95,357
	-	-	95,357	95,357
Derivatives held for trading	-	2,509,871	17,319	2,527,190
Derivatives held for hedging	-	79,694	775	80,469
Available-for-sale financial assets				
Debt securities	9,384,598	18,221,163	-	27,605,761
Equity securities[1]	1,303,011	1,237,456	1,931,796	4,472,263
Others	-	500	-	500
	10,687,609	19,459,119	1,931,796	32,078,524
	13,337,542	27,712,124	2,045,247	43,094,913
Financial liabilities				
Financial liabilities held for trading	74,191	-	-	74,191
Derivatives held for trading	-	2,557,895	893	2,558,788
Derivatives held for hedging	-	49,962	70	50,032
	74,191	2,607,857	963	2,683,011

(In millions of Korean won)	**2016**			
	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading				
Debt securities	2,823,740	4,869,378	-	7,693,118
Equity securities	34,131	27,099	-	61,230
Others	72,349	-	-	72,349
	2,930,220	4,896,477	-	7,826,697
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	129,535	129,535
	-	-	129,535	129,535
Derivatives held for trading	-	2,736,032	9,947	2,745,979
Derivatives held for hedging	-	49,003	1,463	50,466
Available-for-sale financial assets				
Debt securities	10,124,521	11,682,924	-	21,807,445
Equity securities[1]	1,001,541	2,649,967	1,845,455	5,496,963
Others	-	500	-	500
	11,126,062	14,333,391	1,845,455	27,304,908
	14,056,282	22,014,903	1,986,400	38,057,585
Financial liabilities				
Financial liabilities held for trading	73,238	-	-	73,238
Derivatives held for trading	-	2,769,596	122	2,769,718
Derivatives held for hedging	-	63,694	186	63,880
	73,238	2,833,290	308	2,906,836

[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 ₩ 104,148 million and ₩ 54,553 million as at December 31, 2017 and 2016, 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, unlisted equity securities invested in online bank and project financing, which are in their initial phase of business operation, are also measured at cost because the variability of estimated cash flows is significant and the probability of the various estimates cannot be reasonably assessed. The Group has no plan to dispose of the financial instruments in the near future.

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 at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	Fair value 2017	Fair value 2016	Valuation techniques	Inputs
Financial assets				
Financial assets held for trading				
Debt securities	5,624,100	4,869,378	DCF model	Discount rate
Equity securities	39,340	27,099	Net asset value method	Price of the underlying asset such as debenture, stock and others
	5,663,440	4,896,477		
Derivatives held for trading	2,509,871	2,736,032	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	79,694	49,003	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	18,221,163	11,682,924	DCF model	Discount rate
Equity securities	1,237,456	2,649,967	Net asset value method	Price of the underlying asset such as debenture, stock and others
Others	500	500	DCF model	Discount rate
	19,459,119	14,333,391		
	27,712,124	22,014,903		
Financial liabilities				
Derivatives held for trading	2,557,895	2,769,596	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	49,962	63,694	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	2,607,857	2,833,290		

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 at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	2,597,423	12,223,212	826,019	15,646,654
Loans	-	-	251,173,805	251,173,805
Held-to-maturity financial assets	1,197,738	7,577,180	-	8,774,918
Other financial assets[2]	-	-	6,341,463	6,341,463
	3,795,161	19,800,392	258,341,287	281,936,840
Financial liabilities				
Deposits[1]	-	122,498,859	130,402,646	252,901,505
Debts[1]	-	19,820	15,788,939	15,808,759
Debentures	-	19,409,286	-	19,409,286
Other financial liabilities[3]	-	-	12,733,360	12,733,360
	-	141,927,965	158,924,945	300,852,910

(In millions of Korean won)	2016			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	2,555,151	11,391,432	735,460	14,682,043
Loans	-	-	236,227,582	236,227,582
Held-to-maturity financial assets	1,431,622	7,146,403	-	8,578,025
Other financial assets[2]	-	-	5,021,200	5,021,200
	3,986,773	18,537,835	241,984,242	264,508,850
Financial liabilities				
Deposits[1]	-	112,717,627	123,580,058	236,297,685
Debts[1]	-	70,624	15,866,529	15,937,153
Debentures	-	15,334,856	-	15,334,856
Other financial liabilities[3]	-	-	12,097,068	12,097,068
	-	128,123,107	151,543,655	279,666,762

[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 at December 31, 2017 and 2016.

[3] The ₩12,731,712 million and ₩12,095,445 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as at December 31, 2017 and 2016, respectively.

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 at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**Fair value**		**Valuation Techniques**	**Inputs**
	2017	**2016**		
Financial assets				
Held-to-maturity financial assets	7,577,180	7,146,403	DCF model	Discount rate
Financial liabilities				
Debentures	19,409,286	15,334,856	DCF model	Discount rate

Valuation techniques and inputs of financial assets and liabilities whose fair values are disclosed and classified as Level 3 as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**Fair value**		**Valuation techniques**	**Inputs**	**Unobservable inputs**
	2017	**2016**			
Financial assets					
Cash and due from financial institutions	826,019	735,460	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	251,173,805	236,227,582	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	251,999,824	236,963,042			
Financial liabilities					
Deposits	130,402,646	123,580,058	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	15,788,939	15,866,529	DCF model	Other spread, interest rate	Other spread
Other financial liabilities	1,648	1,614	DCF model	Other spread, interest rate	Other spread
	146,193,233	139,448,201			

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 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 Inputs in Market

Changes in Level 3 of the fair value hierarchy for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	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	129,535	1,845,455	9,825	1,277
Total gains or losses				
- Profit or loss	5,638	5,946	(3,543)	(408)
- Other comprehensive-income(expenses)	-	(27,332)	-	-
Purchases	225,000	334,436	16,452	-
Sales	-	(226,709)	-	-
Settlements	(264,816)	-	(5,666)	(164)
Transfers out of Level 3[1]	-	-	(642)	-
Ending balance	95,357	1,931,796	16,426	705

(In millions of Korean won)

	2016			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	70,198	1,553,539	(1,560)	714
Total gains or losses				
- Profit or loss	9,603	17,086	(14,998)	676
- Other comprehensive-income	-	47,080	-	-
Purchases	75,000	455,290	15,534	-
Sales	-	(209,616)	-	-
Settlements	(25,266)	-	2,034	(113)
Transfers into Level 3[1]	-	-	8,815	-
Transfers out of Level 3[1]	-	(17,924)	-	-
Ending balance	129,535	1,845,455	9,825	1,277

[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, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017	
	Net gains(losses) on financial assets/liabilities at fair value through profit or loss	Other operating income(losses)
Total gains or losses included in profit or loss for the period	2,095	5,538
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	1,573	(2,023)

(In millions of Korean won)

	2016	
	Net gains(losses) on financial assets/liabilities at fair value through profit or loss	Other operating income(losses)
Total gains or losses included in profit or loss for the period	(5,395)	17,762
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	3,076	(5,338)

6.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as at December 31, 2017, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs(%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	95,357	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	15.93~18.35	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	20.18~57.10	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	307	Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	12.15~17.12	Higher the volatility, higher the fair value fluctuation
Interest	59	DCF model	Interest rate, loss given default	Loss given default	0.56	Higher the loss rate, lower the fair value
Others	16,953	MonteCarlo Simulation, Tree model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	12.16~29.72	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.47	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	775	DCF model, Closed Form, MonteCarlo Simulation, FDM	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	3.02	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,931,796	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	1.98~20.51	Lower the discount rate, higher the fair value
	2,045,247					
Financial liabilities						
Derivatives held for trading						
Others	893	MonteCarlo Simulation, DCF Model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate, discount rate	Volatility of the stock price	15.84	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.47	Higher the volatility, higher the fair value fluctuation
				Discount rate	2.57~2.69	Higher the discount rate, lower the fair value
Derivatives held for hedging						
Interest	70	DCF model, Closed Form, Monte Carlo Simulation, FDM, Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	2.64	Higher the volatility, higher the fair value fluctuation
	963					

Information about fair value measurements using unobservable inputs as at December 31, 2016, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	129,535	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	17.65 ~ 29.86	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	24.77 ~ 73.07	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	2,433	Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	16.64 ~ 27.95	Higher the volatility, higher the fair value fluctuation
Currency and Interest rate	807	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	0.80 ~ 0.84	Higher the loss rate, lower the fair value
Others	6,707	MonteCarlo Simulation, Tree model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	14.82 ~ 30.97	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest rate	1,463	DCF model, Closed Form, FDM, MonteCarlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	5.04	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,845,455	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, liquidation value , recovery rate of receivables acquisition cost	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	1.49 ~ 18.49	Lower the discount rate, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables acquisition cost, higher the fair value
	1,986,400					
Financial liabilities						
Derivatives held for trading						
Others	122	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate, discount rate	Volatility of the stock price	14.82	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value fluctuation
				Discount rate	2.09	Higher the discount rate, lower the fair value
Derivatives held for hedging						
Interest rate	186	DCF model, Closed Form, FDM, MonteCarlo Simulation	Price of the underlying asset, interest rate, volatility of the underlying asset	Volatility of the underlying asset	2.74	Higher the volatility, higher the fair value fluctuation
	308					

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.

Sensitivity analysis by type of instrument as a result of varying input parameters are as follows:

(In millions of Korean won)	2017			
	Recognition in profit or loss		**Other comprehensive income**	
	Favorable changes	**Unfavorable changes**	**Favorable changes**	**Unfavorable changes**
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative linked securities [1]	54	(112)	-	-
Derivatives held for trading [2]	112	(94)	-	-
Derivatives held for hedging [2]	-	-	-	-
Available-for-sale financial assets [3]	-	-	100,653	(54,892)
	166	(206)	100,653	(54,892)
Financial liabilities				
Derivatives held for trading [2]	86	(92)	-	-
Derivatives held for hedging [2]	2	(2)	-	-
	88	(94)	-	-

(In millions of Korean won)	2016			
	Recognition in profit or loss		**Other comprehensive income**	
	Favorable changes	**Unfavorable changes**	**Favorable changes**	**Unfavorable changes**
Financial assets				
Financial assets designated at fair value through profit or loss				
Derivative linked securities [1]	1,020	(1,176)	-	-
Derivatives held for trading [2]	399	(308)	-	-
Derivatives held for hedging [2]	9	(6)	-	-
Available-for-sale financial assets [3]	-	-	118,637	(63,071)
	1,428	(1,490)	118,637	(63,071)
Financial liabilities				
Derivatives held for trading [2]	111	(138)	-	-
Derivatives held for hedging [2]	3	(3)	-	-
	114	(141)	-	-

[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 ± 10%.
[2] For derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the price of the underlying asset, the volatility of the stock price, and the volatility of interest rate by ± 10% or the loss given default ratio, discount rate by ± 1%.
[3] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as discount rate (-1%~1%) and growth rate (0%~0.5%). For beneficiary certificates, their sensitivity from changes in inputs cannot be analyzed as a practical expedient. There were no significant inter-relationships between unobservable inputs that materially affect fair values.

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.

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:

(In millions of Korean won)	**2017**	**2016**
Balance at the beginning of the period (A)	(3,494)	9
New transactions (B)	(1,574)	(3,869)
Amounts recognized in profit or loss during the period (C= a+b)	1,014	366
a. Amortization	1,014	549
b. Settlement	-	(183)
Balance at the end of the period (A+B+C)	(4,054)	(3,494)

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 at December 31, 2017, are as follows:

(In millions of Korean won)

	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	-	-	15,646,318	-	-	-	15,646,318
Financial assets at fair value through profit or loss	8,313,373	95,357	-	-	-	-	8,408,730
Derivatives	2,527,190	-	-	-	-	80,469	2,607,659
Loans	-	-	251,710,605	-	-	-	251,710,605
Financial investments	-	-	-	32,078,524	8,737,150	-	40,815,674
Other financial assets	-	-	6,341,463	-	-	-	6,341,463
	10,840,563	95,357	273,698,386	32,078,524	8,737,150	80,469	325,530,449

(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	74,191	-	-	74,191
Derivatives	2,558,788	-	50,032	2,608,820
Deposits	-	252,478,931	-	252,478,931
Debts	-	15,810,753	-	15,810,753
Debentures	-	19,183,798	-	19,183,798
Other financial liabilities	-	12,733,354	-	12,733,354
	2,632,979	300,206,836	50,032	302,889,847

The carrying amounts of financial assets and liabilities by category as at December 31, 2016, are as follows:

(In millions of Korean won)

	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	-	-	14,681,846	-	-	-	14,681,846
Financial assets at fair value through profit or loss	7,826,697	129,535	-	-	-	-	7,956,232
Derivatives	2,745,979	-	-	-	-	50,466	2,796,445
Loans	-	-	236,551,052	-	-	-	236,551,052
Financial investments	-	-	-	27,304,908	8,427,498	-	35,732,406
Other financial assets	-	-	5,021,200	-	-	-	5,021,200
	10,572,676	129,535	256,254,098	27,304,908	8,427,498	50,466	302,739,181

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss			
	Held for trading	Financial liability at amortized cost	Derivatives held for hedging	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss	73,238	-	-	73,238
Derivatives	2,769,718	-	63,880	2,833,598
Deposits	-	235,736,034	-	235,736,034
Debts	-	15,934,409	-	15,934,409
Debentures	-	14,959,692	-	14,959,692
Other financial liabilities	-	12,097,059	-	12,097,059
	2,842,956	278,727,194	63,880	281,634,030

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 at December 31, 2017 and 2016, are as follows :

(In millions of Korean won)

		2017		
	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
Discovery 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	6,022	6,022
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	5,339	5,339
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	9,601	9,601
AP 3B ABS Ltd.	Subordinated debt	Available-for-sale financial assets	9,902	9,902
AP 4D ABS Ltd.[1]	Senior debt	Loans and receivables	2,248	2,251
	Subordinated debt	Available-for-sale financial assets	14,160	14,160
			47,272	47,275

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩6,705 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 ₩4,406 million as at December 31, 2016.

(In millions of Korean won)

			2016	
	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**
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	7	7
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	1,393	1,393
Discovery 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	6,876	6,876
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	12,302	12,302
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	15,212	15,212
AP 3B ABS Ltd.	Subordinated debt	Available-for-sale financial assets	14,374	14,374
AP 4D ABS Ltd.[1]	Senior debt	Loans and receivables	13,626	13,689
	Subordinated debt	Available-for-sale financial assets	14,450	14,450
			78,240	78,303

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩6,705 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 ₩4,406 million for the year ended December 31, 2017.

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 at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	740,618	700,466
Loaned securities		
Government and public bonds	109,379	-
	849,997	700,466

(In millions of Korean won)	2016	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	1,376,782	1,261,371
Loaned securities		
Government and public bonds	108,062	-
	1,484,844	1,261,371

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. Account receivables and account payables related to listed securities and derivatives or OTC derivatives settled by the central counterparty are included in the other financial instruments. As the Group has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, the net amounts of the other financial instruments balances are presented in the statement of financial position.

Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017					
	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	
Derivatives held for trading	2,509,930	-	2,509,930	(1,888,558)	(191,349)	430,023
Derivatives held for hedging	80,469	-	80,469	(17,840)	(21,830)	40,799
Receivable spot exchange	3,447,424	-	3,447,424	(3,447,048)	-	376
Reverse repurchase	2,579,900	-	2,579,900	(2,579,900)	-	-
Domestic exchange settlement debits	30,904,611	(29,959,914)	944,697	-	-	944,697
Other financial instruments	1,580	(1,578)	2	-	-	2
	39,523,914	(29,961,492)	9,562,422	(7,933,346)	(213,179)	1,415,897

(In millions of Korean won)	2016					
	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	
Derivatives held for trading	2,736,840	-	2,736,840	(1,622,583)	(2,711)	1,111,546
Derivatives held for hedging	50,466	-	50,466	(10,615)	-	39,851
Receivable spot exchange	2,557,327	-	2,557,327	(2,555,485)	-	1,842
Reverse repurchase	2,892,400	-	2,892,400	(2,892,400)	-	-
Domestic exchange settlement debits	19,854,611	(19,323,418)	531,193	-	-	531,193
Other financial instruments	904	(897)	7	-	-	7
	28,092,548	(19,324,315)	8,768,233	(7,081,083)	(2,711)	1,684,439

Details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017					
	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	2,557,702	-	2,557,702	(1,051,514)	(32,585)	1,473,603
Derivatives held for hedging	50,032	-	50,032	(7,287)	(9,139)	33,606
Payable spot exchange	3,448,848	-	3,448,848	(3,447,048)	-	1,800
Repurchase[1]	700,466	-	700,466	(700,466)	-	-
Domestic exchange settlement credits	29,999,359	(29,959,914)	39,445	(39,445)	-	-
Other financial instruments	1,871	(1,578)	293	(194)	-	99
	36,758,278	(29,961,492)	6,796,786	(5,245,954)	(41,724)	1,509,108

(In millions of Korean won)	2016					
	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	2,769,306	-	2,769,306	(1,803,390)	(207,797)	758,119
Derivatives held for hedging	63,880	-	63,880	(22,758)	(11,922)	29,200
Payable spot exchange	2,555,913	-	2,555,913	(2,555,485)	-	428
Repurchase[1]	1,261,371	-	1,261,371	(1,261,371)	-	-
Domestic exchange settlement credits	20,655,921	(19,323,418)	1,332,503	(1,332,503)	-	-
Other financial instruments	928	(897)	31	(31)	-	-
	27,307,319	(19,324,315)	7,983,004	(6,975,538)	(219,719)	787,747

[1] Includes repurchase agreements sold to customers.

7. Due from Financial Institutions

Details of due from Financial Institutions as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

		Financial Institutions	Interest rate(%)	2017	2016
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00 ~ 1.53	8,511,295	7,259,264
	Due from banking institutions	KEB Hana Bank and others	0.00 ~ 1.72	111,396	3,750
	Due from others	KB Securities Co., Ltd. and others	0.00 ~ 1.00	1,917,633	2,104,822
				10,540,324	9,367,836
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	0.00	1,670,111	2,025,373
	Time deposits in foreign currencies	AOZORA BANK and others	0.11 ~ 6.40	711,347	699,488
	Due from others	Societe Generale and others	0.00	127,111	33,998
				2,508,569	2,758,859
				13,048,893	12,126,695

Restricted due from financial institutions as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

		Financial Institution	2017	2016	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	8,511,295	7,259,264	Bank of Korea Act
	Due from others	NH Investment & Securities Co., Ltd. And others	9,564	678	Derivatives margin account
			8,520,859	7,259,942	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	619,130	564,099	Bank of Korea Act and others
	Time deposits in foreign currencies	China Construction Bank NY Branch	21,428	24,170	New York State Banking Law
	Due from others	Societe Generale and others	78,396	11,490	Derivatives margin account
			718,954	599,759	
			9,239,813	7,859,701	

8. Assets Pledged as Collateral

Details of assets pledged as collateral as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

		2017	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	KB Securities Co., Ltd.	29,508	Derivatives transactions
		29,508	
Available-for-sale financial assets	Mizuho Bank, Ltd. and others	740,132	Repurchase agreements
	Bank of Korea	651,284	Borrowings from Bank of Korea
	Bank of Korea	750,254	Settlement risk of Bank of Korea
	Deutsche Bank. AG	58,524	Derivatives transactions
	Others	19,985	Others
		2,220,179	
Held-to-maturity financial assets	Korea Securities Depository and others	35,026	Repurchase agreements
	Bank of Korea	1,326,558	Borrowings from Bank of Korea
	Bank of Korea	1,204,990	Settlement risk of Bank of Korea
	KB Securities Co., Ltd. and others	236,681	Derivatives transactions
	Others	133,389	Others
		2,936,644	
Mortgage loans	Others	4,950,490	Covered Bond
Building / Land	Samsung Life Insurance Co., Ltd. and others	319,064	Others
		10,455,885	

(In millions of Korean won)

		2016	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	87,718	Repurchase agreements
	KB Securities Co., Ltd. and others	3,020	Derivatives transactions
		90,738	
Available-for-sale financial assets	Korea Securities Depository and others	1,288,571	Repurchase agreements
	Bank of Korea	490,297	Borrowings from Bank of Korea
	Bank of Korea	493,896	Settlement risk of Bank of Korea
	KEB Hana Bank and others	960,868	Derivatives transactions
	Others	19,957	Others
		3,253,589	
Held-to-maturity financial assets	Korea Securities Depository and others	35,035	Repurchase agreements
	Bank of Korea	1,251,011	Borrowings from Bank of Korea
	Bank of Korea	1,178,800	Settlement risk of Bank of Korea
	KB Securities Co., Ltd. and others	209,022	Derivatives transactions
	Others	261,850	Others
		2,935,718	
Mortgage loans	Others	2,252,315	Covered Bond
Building / Land	Samsung Life Insurance Co., Ltd. and others	332,148	Others
		8,864,508	

The fair value of collateral available to sell or repledge regardless of debtor's default as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	2,640,078	-

(In millions of Korean won)	2016	
	Fair value of collateral	**Fair value of collateral sold or repledged**
Securities	2,955,306	-

9. Derivative Financial Instruments and Hedge Accounting

The Group 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 particular, the Group applies fair value hedge accounting using interest rate swaps and demand deposits in foreign currencies 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 foreign currencies, debt securities in Korean won, debt securities in foreign currencies and beneficiary certificates in foreign currencies. Also, the Group applies cash flow hedge accounting using interest rate swaps to hedge cash flow risk of floating rate notes in Korean won and borrowings in foreign currencies. In addition, the Group applies net investment hedge accounting by designating debentures in foreign currencies and currency forwards as hedging instruments to hedge foreign exchange risks on net investments in foreign operations.

Details of derivative financial instruments for trading as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Futures[1]	1,194,766	-	-
Swaps	107,934,385	389,926	328,072
Options	12,615,000	130,013	226,931
	121,744,151	519,939	555,003
Currency			
Forwards	62,354,931	1,142,066	1,228,052
Futures[1]	440,903	-	-
Swaps	28,386,919	843,854	767,344
Options	695,848	4,071	6,998
	91,878,601	1,989,991	2,002,394
Stock and index			
Futures[1]	23,458	-	-
Options	84,742	307	498
	108,200	307	498
Others	1,073,316	16,953	893
	214,804,268	2,527,190	2,558,788

(In millions of Korean won)	2016		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Futures[1]	1,030,888	-	-
Swaps	86,741,333	638,420	552,695
Options	5,202,000	38,216	150,753
	92,974,221	676,636	703,448
Currency			
Forwards	56,486,111	1,302,620	1,152,025
Futures[1]	299,913	-	-
Swaps	28,107,538	752,636	909,277
Options	487,313	4,947	4,557
	85,380,875	2,060,203	2,065,859
Stock and index			
Futures[1]	-	-	-
Options	58,770	2,433	288
	58,770	2,433	288
Others	942,416	6,707	123
	179,356,282	2,745,979	2,769,718

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The fair value of derivative financial instruments designated as hedging instruments as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	2,919,935	47,856	49,962
Other	50,000	775	70
	2,969,935	48,631	50,032

(In millions of Korean won)	2016		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	3,130,646	48,424	63,634
Other	140,000	1,464	186
	3,270,646	49,888	63,820

The fair value of non-derivative financial instruments designated as hedging instruments as at December 30, 2017 and December 31, 2016, is as follows:

(In millions of Korean won)	**2017**	**2016**
Demand deposits in foreign currencies	32,051	-

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Gains(losses) on hedging instruments	16,195	(81,290)
Gains(losses) on the hedged item attributable to the hedged risk	(16,368)	81,884
	(173)	594

Cash flow hedge

The fair value of derivative financial instruments designated as hedging instruments as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)		**2017**	
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	1,660,670	10,440	-

(In millions of Korean won)		**2016**	
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	680,000	578	60

Gains and losses from cash flow hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Gains(losses) on hedging instruments	10,694	503
Effective gains(losses) from cash flow hedging instruments	10,691	445
Ineffective gains(losses) from cash flow hedging instruments	3	58

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Other comprehensive income or loss	10,691	445
Reclassification to profit or loss	(444)	-
Income tax effect	(2,833)	(108)
	7,414	337

As at December 31, 2017, the hedged items subject to cash flow hedge are exposed to the risk of changes in cash flows until June 9, 2022.

Hedges of a net investment in a foreign operation

Fair value of derivative financial instruments designated as hedging instruments as at December 31, 2017 is as follows:

(In millions of Korean won)	2017		
	Notional amount	**Assets**	**Liabilities**
Currency forwards	471,416	21,398	-

There was no derivative financial instruments designated as hedging instruments as at December 31, 2016.

Fair value of non-derivative financial instruments designated as hedging instruments is as follows:

(In millions of Korean won)	**2017**	**2016**
Debentures in foreign currencies	99,994	199,478

Gain or loss from hedging instruments in hedge of net investments in foreign operations and hedged items attributable to the hedged risk for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Gains(losses) on hedging instruments	36,044	(8,992)
Effective portion of gain(loss) on hedging instruments of net investments in foreign operations	34,915	(8,992)
Ineffective portion of gain(loss) on hedging instruments of net investments in foreign operations	1,129	-

Effective portion of gains(losses) on hedging instruments recognized in other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Other comprehensive income(loss)	34,915	(8,992)
Income tax effect	(8,196)	2,176
Other comprehensive income(loss) after tax	26,719	(6,816)

10. Loans

Loans as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Loans	252,572,981	237,576,213
Deferred loan origination fees and costs	551,345	570,450
Allowances	(1,413,721)	(1,595,611)
Carrying amount	251,710,605	236,551,052

Loans to banks as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Loans	5,314,577	5,542,989
Allowances	(77)	(66)
Carrying amount	5,314,500	5,542,923

Loans to customers other than banks as at December 31, 2017 and 2016, consist of:

(In millions of Korean won)	**2017**		
	Retail	**Corporate**	**Total**
Loans in Korean won	130,390,627	105,300,767	235,691,394
Loans in foreign currencies	95,492	3,042,565	3,138,057
Domestic import usance bills	-	2,128,868	2,128,868
Off-shore funding loans	-	750,102	750,102
Call loans	-	335,000	335,000
Bills bought in Korean won	-	4,168	4,168
Bills bought in foreign currencies	-	3,875,550	3,875,550
Guarantee payments under payment guarantee	-	6,373	6,373
Reverse repurchase agreements	-	1,159,900	1,159,900
Privately placed bonds	-	720,337	720,337
	130,486,119	117,323,630	247,809,749
Proportion (%)	52.66	47.34	100.00
Allowances	(318,533)	(1,095,111)	(1,413,644)
	130,167,586	116,228,519	246,396,105

(In millions of Korean won)	2016		
	Retail	**Corporate**	**Total**
Loans in Korean won	123,804,999	97,471,594	221,276,593
Loans in foreign currencies	72,329	2,685,932	2,758,261
Domestic import usance bills	-	2,962,676	2,962,676
Off-shore funding loans	-	559,915	559,915
Call loans	-	262,331	262,331
Bills bought in Korean won	-	5,568	5,568
Bills bought in foreign currencies	-	2,834,172	2,834,172
Guarantee payments under payment guarantee	-	11,327	11,327
Reverse repurchase agreements	-	1,239,500	1,239,500
Privately placed bonds	-	693,331	693,331
	123,877,328	108,726,346	232,603,674
Proportion (%)	53.26	46.74	100.00
Allowances	(333,269)	(1,262,276)	(1,595,545)
	123,544,059	107,464,070	231,008,129

Changes in deferred loan origination fees and costs for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017				
	Beginning	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	582,479	267,116	(287,170)	-	562,425
Other origination costs	295	497	(328)	(2)	462
	582,774	267,613	(287,498)	(2)	562,887
Deferred loan origination fees					
Loans in Korean won	9,968	1,776	(4,951)	-	6,793
Other origination fees	2,356	3,672	(1,269)	(10)	4,749
	12,324	5,448	(6,220)	(10)	11,542
	570,450	262,165	(281,278)	8	551,345

(In millions of Korean won)	2016				
	Beginning	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	594,518	297,671	(309,710)	-	582,479
Other origination costs	470	230	(405)	-	295
	594,988	297,901	(310,115)	-	582,774
Deferred loan origination fees					
Loans in Korean won	15,972	3,056	(9,060)	-	9,968
Other origination fees	4,447	902	(2,995)	2	2,356
	20,419	3,958	(12,055)	2	12,324
	574,569	293,943	(298,060)	(2)	570,450

11. Allowances for Loan Losses

Changes in the allowances for loan losses for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017		
	Retail	**Corporate**	**Total**
Beginning	333,269	1,262,342	1,595,611
Written-off	(274,714)	(375,705)	(650,419)
Recoveries from written-off loans	136,765	272,979	409,744
Sale	(682)	(17,560)	(18,242)
Other changes	1,769	(88,835)	(87,066)
Provision(Reversal)[1]	122,126	41,967	164,093
Ending	318,533	1,095,188	1,413,721

(In millions of Korean won)

	2016		
	Retail	**Corporate**	**Total**
Beginning	432,414	1,593,465	2,025,879
Written-off	(252,642)	(725,346)	(977,988)
Recoveries from written-off loans	152,384	198,972	351,356
Sale	(3,924)	(37,535)	(41,459)
Other changes	(4,877)	(45,883)	(50,760)
Provision(Reversal)[1]	9,914	278,669	288,583
Ending	333,269	1,262,342	1,595,611

[1] Provision(reversal) for credit losses in statements of comprehensive income also includes 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).

12. Financial Assets at Fair Value Through Profit or Loss and Financial Investments

Details of financial assets at fair value through profit or loss and financial investments as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Financial assets held for trading		
Debt securities		
Government and public bonds	1,639,136	2,149,866
Financial bonds	3,727,349	3,658,448
Corporate bonds	2,025,492	1,445,591
Asset-backed securities	148,995	222,076
Others	359,641	217,137
Equity securities		
Stocks	121,949	34,131
Beneficiary certificates	216,955	27,099
Others	73,856	72,349
	8,313,373	7,826,697
Financial assets designated at fair value through profit or loss		
Derivative linked securities	95,357	129,535
Total financial assets at fair value through profit or loss	8,408,730	7,956,232
Available-for-sale financial assets		
Debt securities		
Government and public bonds	2,820,398	6,590,766
Financial bonds	15,838,948	8,370,202
Corporate bonds	6,741,055	4,116,728
Asset-backed securities	2,205,360	2,729,749
Equity securities		
Stocks	1,923,152	1,776,142
Equity investments	143,685	148,400
Beneficiary certificates	2,405,426	3,572,421
Others	500	500
	32,078,524	27,304,908
Held-to-maturity financial assets		
Debt securities		
Government and public bonds	1,302,836	1,534,324
Financial bonds	1,878,005	1,528,268
Corporate bonds	1,360,836	1,782,391
Asset-backed securities	4,195,473	3,582,515
	8,737,150	8,427,498
Total financial investments	40,815,674	35,732,406

The impairment losses and the reversal of impairment losses in financial investments for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	(12,405)	-	(12,405)

(In millions of Korean won)

	2016		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	(22,225)	-	(22,225)

13. Investments in Associates

Investments in associates as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017					
	Ownership (%)	**Acquisition cost**	**Share of net asset amount**	**Carrying amount**	**Industry**	**Location**
Balhae Infrastructure Fund [1]	12.61	101,794	105,190	105,190	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	5,056	5,056	Credit information	Korea
KB12-1 Venture Investment Partnership [3]	80.00	22,800	37,239	37,239	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	3,891	4,504	4,137	Investment finance	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	105,567	104,310	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	9,159	(16,202)	-	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	10,376	13,770	13,770	Investment finance	Korea
Future Planning KB Start-up Creation Fund [3]	50.00	14,700	18,093	18,093	Investment finance	Korea
KB-KDBC New Technology Business Investment Fund	33.33	2,500	2,486	2,486	Investment finance	Korea
Shinla Construction Co., Ltd.[4]	20.17	-	(551)	-	Specialty construction	Korea
Terra Corporation [4]	24.06	-	36	20	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp.[4]	22.89	-	(601)	127	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd.[4]	42.65	-	(433)	-	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd.[4]	26.49	-	(20)	-	Manufacture of metal door, windows, shutter and relevant products	Korea
Shinhwa Underwear Co., Ltd.[4]	26.05	-	(102)	138	Manufacture of underwear and sleepwear	Korea
DPAPS Co., Ltd.[4]	38.62	-	155	-	Wholesale of paper	Korea

Jaeyang Industry Co., Ltd.[4]	20.86	-	(522)	-	Manufacture of luggage and other protective cases	Korea
Keundae Printing Co., Ltd.[4]	41.01	-	(223)	127	Screen Printing	Korea
Jinseung Tech Co., Ltd.[4]	30.04	-	(173)	-	Manufacture of other general-purpose machinery n.e.c.	Korea
Dong Jo Co., Ltd.[4]	29.29	-	691	-	Wholesale of agricultural and forestry machinery and equipment	Korea
Korea NM Tech Co., Ltd.[4]	22.41	-	580	-	Manufacture of motor vehicles, trailers and semitrailers	Korea
Jungdo Co., Ltd.[4]	25.34	-	1,652	-	Office, commercial and institutional building construction	Korea
Dae-A Leisure Co., Ltd.[4]	49.36	-	1,017	-	Earth works	Korea
Daesang Techlon Co., Ltd.[4]	47.73	-	96	-	Manufacture of Plastic, Teflon etc.	Korea
KB High-tech Company Investment Fund [3]	50.00	25,000	26,847	26,847	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	8,230	7,856	8,230	Investment finance	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,122	20,122	Investment finance	Korea
		312,074	332,130	345,892		

(In millions of Korean won)	2016					
	Ownership (%)	Acquisition cost	Share of net asset amount	Carrying amount	Industry	Location
Balhae Infrastructure Fund [1]	12.61	130,189	133,200	133,200	Investment finance	Korea
Korea Credit Bureau Co., Ltd. [1]	9.00	4,500	4,853	4,853	Credit information	Korea
JSC Bank CenterCredit						
Ordinary shares [2, 5]	29.56	954,104	(32,191)	-	Banking	Kazakhstan
Preferred shares [2, 5]	93.15					
KB12-1 Venture Investment Partnership [3]	80.00	27,200	38,797	38,797	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	14,391	15,063	14,696	Investment finance	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	104,204	102,948	Investment finance	Korea
Incheon Bridge Co., Ltd. [1]	14.99	24,677	728	728	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	18,160	19,831	19,831	Investment finance	Korea
Future Planning KB Start-up Creation Fund [3]	50.00	10,700	15,202	15,202	Investment finance	Korea
Shinla Construction Co., Ltd. [4]	20.17	-	(543)	-	Specialty construction	Korea
Terra Corporation [4]	24.06	-	44	28	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp. [4]	22.89	-	(542)	232	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd. [4]	42.65	-	(420)	-	Wholesale of primary metal	Korea

Doosung Metal Co., Ltd. [4]	26.49	-	(51)	-	Manufacture of metal door, windows, shutter and relevant products	Korea
Shinhwa Underwear Co., Ltd. [4]	26.05	-	(137)	103	Manufacture of underwear and sleepwear	Korea
DPAPS Co., Ltd. [4]	38.62	-	151	-	Wholesale of paper	Korea
EJADE Co., Ltd. [4]	25.67	-	(520)	-	Wholesale of underwear	Korea
Jaeyang Industry Co., Ltd. [4]	20.86	-	(522)	-	Manufacture of luggage and other protective cases	Korea
Keundae Printing Co., Ltd. [4]	41.01	-	(351)	-	Screen Printing	Korea
KB High-tech Company Investment Fund [3]	50.00	15,000	15,140	15,140	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	1,998	1,949	1,998	Investment finance	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,220	20,220	Investment finance	Korea
		1,310,043	334,105	367,976		

[1] As at December 31, 2017 and 2016, 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 at December 31, 2016, amounts to ₩29,358 million.

[3] As at December 31, 2017 and 2016, the Group is a partner in a limited partnership and does not have the right to control over these entities.

[4] The investment in associates was reclassified from available-for-sale financial assets due to termination of rehabilitation procedures.

[5] The Group sold the entire share of JSC Bank CenterCredit for year ended December 31, 2017.

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)	2017[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	836,309	1,800	807,567	834,509	105,190	-	105,190
Korea Credit Bureau Co., Ltd.	75,504	19,323	10,000	56,181	5,056	-	5,056
KB12-1 Venture Investment Partnership	47,454	905	28,500	46,549	37,239	-	37,239
KoFC KBIC Frontier Champ 2010-5(PEF)	15,017	4	12,970	15,013	4,504	(367)	4,137
KB GwS Private Securities Investment Trust	505,115	741	425,814	504,374	105,567	(1,257)	104,310
Incheon Bridge Co., Ltd.	646,811	754,900	61,096	(108,089)	(16,202)	16,202	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	70,166	1,315	51,880	68,851	13,770	-	13,770
Future Planning KB Start-up Creation Fund	37,730	1,544	29,400	36,186	18,093	-	18,093
KB High-tech Company Investment Fund	53,949	255	50,000	53,694	26,847	-	26,847
Aju Good Technology Venture Fund	20,676	250	21,400	20,426	7,856	374	8,230
KB-KDBC Pre-IPO New Technology Business Investment Fund	7,503	45	7,500	7,458	2,486	-	2,486
KB Star office private real estate Investment Trust No.1	216,041	120,462	95,000	95,579	20,122	-	20,122

(In millions of Korean won)	2017[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	113,441	104,942	-	104,942	12,842
Korea Credit Bureau Co., Ltd.	68,750	3,580	-	3,580	149
KB12-1 Venture Investment Partnership	4,762	(774)	4,326	3,552	-
KoFC KBIC Frontier Champ 2010-5(PEF)	2,728	(294)	142	(152)	-
KB GwS Private Securities Investment Trust	35,002	34,004	-	34,004	5,753
Incheon Bridge Co., Ltd.	90,691	(8,719)	-	(8,719)	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	21,916	8,624	129	8,753	-
Future Planning KB Start-up Creation Fund	1,298	(2,221)	4	(2,217)	-
KB High-tech Company Investment Fund	4,408	1,978	1,437	3,415	-
Aju Good Technology Venture Fund	660	(841)	-	(841)	-

KB-KDBC Pre-IPO New Technology Business Investment Fund	3	(42)	-	(42)	-
KB Star office private real estate Investment Trust No.1	13,071	5,684	-	5,684	1,295

(In millions of Korean won)	2016[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	1,059,008	2,288	1,061,216	1,056,720	133,200	-	133,200
Korea Credit Bureau Co., Ltd.	71,245	17,322	10,000	53,923	4,853	-	4,853
JSC Bank CenterCredit	4,510,673	4,578,854	546,794	(68,181)	(32,191)	32,191	-
KB12-1 Venture Investment Partnership	49,545	1,048	34,000	48,497	38,797	-	38,797
KoFC KBIC Frontier Champ 2010-5(PEF)	50,213	2	47,970	50,211	15,063	(367)	14,696
KB GwS Private Securities Investment Trust	498,606	741	425,814	497,865	104,204	(1,256)	102,948
Incheon Bridge Co., Ltd.	660,858	656,000	164,621	4,858	728	-	728
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	100,252	1,094	90,800	99,158	19,831	-	19,831
Future Planning KB Start-up Creation Fund	31,944	1,541	21,400	30,403	15,202	-	15,202
KB High-tech Company Investment Fund	30,535	256	30,000	30,279	15,140	-	15,140
Aju Good Technology Venture Fund	5,249	181	5,200	5,068	1,949	49	1,998
KB Star office private real estate Investment Trust No.1	216,988	120,943	95,000	96,045	20,220	-	20,220

(In millions of Korean won)	2016[1]				
	Operating revenues	Profit (Loss)	Other comprehensive income(loss)	Comprehensive income(loss)	Dividends
Balhae Infrastructure Fund	55,541	46,428	-	46,428	5,653
Korea Credit Bureau Co., Ltd.	59,868	3,517	-	3,517	135
JSC Bank CenterCredit	157,996	(13,912)	(15,374)	(29,286)	-
KB12-1 Venture Investment Partnership	9,410	3,539	(2,379)	1,160	-
KoFC KBIC Frontier Champ 2010-5(PEF)	3,045	2,001	2,390	4,391	-
KB GwS Private Securities Investment Trust	36,502	35,513	-	35,513	5,756
Incheon Bridge Co., Ltd.	98,341	17,449	-	17,449	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	22,411	15,002	872	15,874	-
Future Planning KB Start-up Creation Fund	10,378	9,165	222	9,387	-

KB High-tech Company Investment Fund	1,437	176	103	279	-
Aju Good Technology Venture Fund	50	(128)	-	(128)	-
KB Star office private real estate Investment Trust No.1	16,314	7,460	-	7,460	1,679

[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.

Changes in investments in associates for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehen-sive income (loss)**	**Ending**
Balhae Infrastructure Fund	133,200	807	(29,202)	(12,842)	13,227	-	105,190
Korea Credit Bureau Co., Ltd.	4,853	-	-	(149)	352	-	5,056
KB12-1 Venture Investment Partnership	38,797	-	(4,400)	-	(619)	3,461	37,239
KoFC KBIC Frontier Champ 2010-5(PEF)	14,696	-	(10,500)	-	(102)	43	4,137
KB GwS Private Securities Investment Trust	102,949	-	-	(5,753)	7,114	-	104,310
Incheon Bridge Co., Ltd	728	-	(728)	-	-	-	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	19,831	-	(7,784)	-	1,698	25	13,770
Future Planning KB Start-up Creation Fund [3]	15,202	4,000	-	-	(1,110)	1	18,093
KB-KDBC New Technology Business Investment Fund	-	2,500	-	-	(14)	-	2,486
Terra Corporation [4]	28	-	-	-	(8)	-	20
MJT&I Corp. [4]	232	-	-	-	(105)	-	127
Shinhwa Underwear Co., Ltd. [4]	103	-	-	-	35	-	138
Keundae Printing Co., Ltd. [4]	-	-	-	-	127	-	127
KB High-tech Company Investment Fund [3]	15,140	10,000	-	-	988	719	26,847
Aju Good Technology Venture Fund	1,997	6,233	-	-	-	-	8,230
KB Star office private real estate Investment Trust No.1	20,220	-		(1,295)	1,197	-	20,122
	367,976	23,540	(52,614)	(20,039)	22,780	4,249	345,892

(In millions of Korean won)	2016						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehen-sive income (loss)**	**Ending**
Balhae Infrastructure Fund	128,275	4,727	-	(5,654)	5,852	-	133,200
Korea Credit Bureau Co., Ltd.	4,580	-	-	(135)	408	-	4,853
UAMCO., Ltd.	129,707	-	(101,740)	(26,961)	(1,006)	-	-
JSC Bank CenterCredit	-	-	-	(1)	1	-	-
KB12-1 Venture Investment Partnership	50,670	-	(12,800)	-	2,831	(1,904)	38,797
KoFC KBIC Frontier Champ 2010-5(PEF)	15,169	-	(1,740)	-	550	717	14,696
United PF 1st Recovery Private Equity Fund	183,117	-	(190,863)	-	7,746	-	-
KB GwS Private Securities Investment Trust	101,274	-	-	(5,756)	7,430	-	102,948
Incheon Bridge Co., Ltd.	-	-	-	-	728	-	728
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	24,760	3,000	(9,600)	-	952	719	19,831
Future Planning KB Start-up Creation Fund	12,000	4,000	(5,300)	-	4,391	111	15,202
Terra Corporation	21	-	-	-	7	-	28
MJT&I Corp.	149	-	-	-	83	-	232
Jungdong Steel Co., Ltd.	33	-	-	-	(33)	-	-
Shinhwa Underwear Co., Ltd.	56	-	-	-	47	-	103
KB High-tech Company Investment Fund	-	15,000	-	-	88	52	15,140
Aju Good Technology Venture Fund	-	2,000	(2)	-	-	-	1,998
KB Star office private real estate Investment Trust No.1	20,328	-	-	(1,679)	1,571	-	20,220
	670,139	28,727	(322,045)	(40,186)	31,646	(305)	367,976

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method of accounting for the years ended December 31, 2017 and 2016, are as follows:

	2017		2016	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	16,202	16,202	(1,879)	-
Shinla Construction Co., Ltd.	7	183	27	175
Doosung Metal Co., Ltd.	(31)	23	5	54
Myeongwon Tech Co., Ltd.	-	-	(43)	-
Jungdong Steel Co., Ltd.	13	487	474	474
DPAPS Co.,Ltd.	(4)	184	188	188
EJADE Co.,Ltd.	(1,112)	-	1,112	1,112
JSC Bank CenterCredit	(108,761)	-	5,308	108,761

14. Property and Equipment, and Investment Properties

Details of property and equipment as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	1,973,230	-	(1,018)	1,972,212
Buildings	1,223,088	(416,165)	(5,859)	801,064
Leasehold improvements	715,631	(639,555)	-	76,076
Equipment and vehicles	1,161,199	(1,012,373)	-	148,826
Construction in-progress	12,187	-	-	12,187
Finance lease assets	23,069	(17,840)	-	5,229
	5,108,404	(2,085,933)	(6,877)	3,015,594

(In millions of Korean won)	2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	2,060,974	-	(1,018)	2,059,956
Buildings	1,235,214	(403,397)	(5,859)	825,958
Leasehold improvements	653,804	(590,148)	-	63,656
Equipment and vehicles	1,195,582	(1,039,735)	-	155,847
Construction in-progress	4,013	-	-	4,013
Finance lease assets	22,391	(14,430)	-	7,961
	5,171,978	(2,047,710)	(6,877)	3,117,391

Changes in property and equipment for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017						
	Beginning	Acquisition	Transfers[1]	Disposal	Depreciation	Others	Ending
Land	2,059,956	16,647	(104,345)	(19)	-	(27)	1,972,212
Buildings	825,958	-	5,838	(1,023)	(29,647)	(62)	801,064
Leasehold improvements	63,656	586	57,548	(757)	(57,896)	12,939	76,076
Equipment and vehicles	155,847	90,502	-	(170)	(97,134)	(219)	148,826
Construction in-progress	4,013	110,345	(102,160)	-	-	(11)	12,187
Finance lease assets	7,961	678	-	-	(3,410)	-	5,229
	3,117,391	218,758	(143,119)	(1,969)	(188,087)	12,620	3,015,594

(In millions of Korean won)

	2016						
	Beginning	**Acquisition**	**Transfers[1]**	**Disposal**	**Depreciation**	**Others**	**Ending**
Land	1,882,298	98,311	79,454	(127)	-	20	2,059,956
Buildings	815,972	1,187	38,295	(545)	(29,015)	64	825,958
Leasehold improvements	48,365	1,239	49,375	(691)	(45,259)	10,627	63,656
Equipment and vehicles	149,711	103,793	-	(181)	(97,443)	(33)	155,847
Construction in-progress	443	144,588	(141,020)	-	-	2	4,013
Finance lease assets	12,583	606	-	-	(5,228)	-	7,961
	2,909,372	349,724	26,104	(1,544)	(176,945)	10,680	3,117,391

[1] Including transfers from investment properties and assets held for sale.

Changes in accumulated impairment losses of property and equipment for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

2017				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
(6,877)	-	-	-	(6,877)

(In millions of Korean won)

2016				
Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
(6,877)	-	-	-	(6,877)

Details of investment properties as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	205,723	-	205,723
Buildings	152,841	(21,064)	131,777
	358,564	(21,064)	337,500

(In millions of Korean won)

	2016		
	Acquisition cost	**Accumulated depreciation**	**Carrying amount**
Land	230,254	-	230,254
Buildings	160,793	(18,167)	142,626
	391,047	(18,167)	372,880

The valuation technique and input variables that are used to measure the fair value of investment property as at December 31, 2017, are as follows:

(In millions of Korean won)	2017		
	Fair Value	**Valuation technique**	**Inputs**
Land and Buildings	63,144	Cost approach value	- Price per square meter - Replacement cost
	303,667	Income approach	- Discount rate - Capitalization rate - Vacancy rate

As at December 31, 2017 and 2016, fair values of the investment properties amount to ₩366,811 million and ₩399,008 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, 2017 and 2016, amounts to ₩17,714 million and ₩21,492 million, respectively.

Changes in investment properties for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	230,254	-	(24,531)	-	205,723
Buildings	142,626	262	(6,326)	(4,785)	131,777
	372,880	262	(30,857)	(4,785)	337,500

(In millions of Korean won)	2016				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	255,806	-	(25,552)	-	230,254
Buildings	157,373	1,254	(12,515)	(3,486)	142,626
	413,179	1,254	(38,067)	(3,486)	372,880

15. Intangible Assets

Details of intangible assets as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	66,490	-	(1,202)	65,288
Other intangible assets	878,285	(722,368)	(3,597)	152,320
	944,775	(722,368)	(4,799)	217,608

(In millions of Korean won)	2016			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	66,490	-	-	66,490
Other intangible assets	828,618	(680,215)	(4,179)	144,224
	895,108	(680,215)	(4,179)	210,714

Details of goodwill as at December 31, 2017 and 2016, are as follows:

	2017		2016	
(In millions of Korean won)	**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
	66,490	65,288	66,490	66,490

Changes in goodwill for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017				
	Beginning	**Acquisition**	**Disposal**	**Impairment loss**	**Ending**
Housing & Commercial Bank	65,288	-	-	-	65,288
KB Cambodia Bank	1,202	-	-	(1,202)	-
	66,490	-	-	(1,202)	66,490

(In millions of Korean won)	2016				
	Beginning	**Acquisition**	**Disposal**	**Impairment loss**	**Ending**
Housing & Commercial Bank	65,288	-	-	-	65,288
KB Cambodia Bank	1,202	-	-	-	1,202
	66,490	-	-	-	65,288

Changes in accumulated impairment losses of goodwill for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Beginning	**Impairment**	**Others**	**Ending**
Accumulated impairment losses of goodwill	-	(1,202)	-	(1,202)

(In millions of Korean won)	2016			
	Beginning	**Impairment**	**Others**	**Ending**
Accumulated impairment losses of goodwill l	-	-	-	-

Details of allocating goodwill to cash-generating units and related information for impairment testing as at December 31, 2016, are as follows:

(In millions of Korean won)	**Housing & Commercial Bank**			
	Retail Banking	**Corporate Banking**	**KB Cambodia Bank**	**Total**
Carrying amounts	49,315	15,973	-	65,288
Recoverable amount exceeded carrying amount	8,957,260	3,448,191	-	12,405,451
Discount rate (%)	20.47	20.81	27.57	
Permanent growth rate (%)	1.00	1.00	1.00	

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 1.0% annually for Retail Banking, Corporate Banking and KB Cambodia Bank. 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.

Details of intangible assets, excluding goodwill, as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	1,784	(1,503)	-	281
Software	713,034	(624,399)	-	88,635
Other intangible assets	137,361	(82,899)	(3,597)	50,865
Finance leases assets	26,106	(13,567)	-	12,539
	878,285	(722,368)	(3,597)	152,320

(In millions of Korean won)	2016			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	1,417	(1,281)	-	136
Software	675,830	(592,069)	-	83,761
Other intangible assets	126,058	(77,881)	(4,179)	43,998
Finance leases assets	25,313	(8,984)	-	16,329
	828,618	(680,215)	(4,179)	144,224

Changes in intangible assets, excluding goodwill, for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	136	244	(8)	(103)	12	281
Software	83,761	37,725	-	(32,779)	(72)	88,635
Other intangible assets	43,998	13,429	(306)	(6,099)	(157)	50,865
Finance leases assets	16,329	793	-	(4,583)	-	12,539
	144,224	52,191	(314)	(43,564)	(217)	152,320

(In millions of Korean won)

	2016					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	215	47	-	(126)	-	136
Software	44,984	65,386	-	(26,611)	2	83,761
Other intangible assets	49,910	8,537	(3,810)	(8,387)	(2,252)	43,998
Finance leases assets	20,000	708	-	(4,379)	-	16,329
	115,109	74,678	(3,810)	(39,503)	(2,250)	144,224

Changes in accumulated impairment losses on intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017				
	Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	(4,179)	-	35	547	(3,597)

(In millions of Korean won)	2016				
	Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	(7,470)	(2,250)	15	5,526	(4,179)

Changes in emission rights for the year ended December 31, 2017, are as follows:

(KAU, in millions of Korean won)

	Applicable under 2016		**Applicable under 2017**		**Total**	
	Quantity	**Carrying amount**	**Quantity**	**Carrying amount**	**Quantity**	**Carrying amount**
Beginning	99,283	-	104,920	-	204,203	-
Gratuitous allocation	578		17,046		17,624	
Borrowing	18,306	-	(18,306)	-	-	-
Surrendered to government	(117,484)	-	-	-	(117,484)	-
Cancel	(683)	-	(398)	-	(1,081)	-
Ending	-	-	103,262	-	103,262	-

16. Deferred Income Tax Assets and Liabilities

Details of deferred income tax assets and liabilities as at December 31, 2017 and 2016, are as follows:

	2017		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	71,870	-	71,870
Impairment losses on property and equipment	5,411	-	5,411
Interest on equity index-linked deposits	43	-	43
Share-based payments	17,014	-	17,014
Provisions for guarantees	24,341	-	24,341
Gains on valuation of derivatives	-	(19,239)	(19,239)
Present value discount	-	(58)	(58)
Losses on fair value hedged item	-	(15,698)	(15,698)
Accrued interest	-	(43,328)	(43,328)
Deferred loan origination fees and costs	-	(131,911)	(131,911)
Gains on revaluation	-	(306,344)	(306,344)
Investments in subsidiaries and associates	16,697	(100,238)	(83,541)
Gains on valuation of security investment	21,483	-	21,483
Defined benefit liabilities	332,930	-	332,930
Accrued expenses	128,700	-	128,700
Retirement insurance expense	-	(301,261)	(301,261)
Adjustments to the prepaid contributions	-	(16,236)	(16,236)
Others	164,322	(18,579)	145,743
	782,811	(952,892)	(170,081)
Offsetting of deferred income tax assets and liabilities	(780,761)	780,761	-
Total	2,050	(172,131)	(170,081)

	2016		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	70,507	-	70,507
Impairment losses on property and equipment	5,037	-	5,037
Interest on equity index-linked deposits	41	-	41
Share-based payments	10,408	-	10,408
Provisions for guarantees	30,569	-	30,569
Gains on valuation of derivatives	-	(10,235)	(10,235)
Present value discount	-	(22)	(22)
Losses on fair value hedged item	-	(14,335)	(14,335)
Accrued interest	-	(43,842)	(43,842)
Deferred loan origination fees and costs	-	(120,310)	(120,310)
Gains on revaluation	-	(270,890)	(270,890)
Investments in subsidiaries and associates	6,672	(89,282)	(82,610)
Gains on valuation of security investment	68,455	-	68,455
Defined benefit liabilities	300,059	-	300,059
Accrued expenses	232,207	-	232,207
Retirement insurance expense	-	(270,808)	(270,808)
Adjustments to the prepaid contributions	-	(15,142)	(15,142)
Others	179,048	(20,464)	158,584
	903,003	(855,330)	47,673
Offsetting of deferred income tax assets and liabilities	(855,311)	855,311	-
Total	47,692	(19)	47,673

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩4,901 million associated with investments in subsidiaries and associates as at December 31, 2017, 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 at December 31, 2017.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩18,084 million associated with investments in subsidiaries and associates as at December 31, 2017, 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 ₩80,204 million and ₩12,500 million associated with loss on SPE repurchase and others, respectively, as at December 31, 2017, due to the uncertainty that these will be realized in the future.

Changes in cumulative temporary differences for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Other provisions	291,350	291,350	261,346	261,346
Impairment losses on property and equipment	20,812	20,812	19,678	19,678
Interest on equity index-linked deposits	168	168	155	155
Share-based payments	43,008	43,008	61,870	61,870
Provisions for guarantees	126,319	126,319	88,512	88,512
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	814,685	801,876	64,499	77,308
Gains on valuation of security investment	282,872	282,872	78,120	78,120
Defined benefit liabilities	1,239,914	205,084	175,824	1,210,654
Accrued expenses	959,532	959,532	467,999	467,999
Others	759,606	219,134	70,541	611,013
	4,618,470	2,950,155	1,288,544	2,956,859
Unrecognized deferred income tax assets				
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	788,196			18,084
Others	21,797			12,500
	3,728,273			2,846,071
Tax rate (%)	24.20			27.50
Total deferred income tax assets from deductible temporary differences[1]	903,002			782,811

(In millions of Korean won)	2017			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Losses from fair value hedge	(59,235)	(59,235)	(57,083)	(57,083)
Accrued interest	(181,165)	(136,158)	(112,549)	(157,556)
Deferred loan origination fees and costs	(497,149)	(497,149)	(479,677)	(479,677)
Gains on valuation of derivatives	(42,294)	(42,294)	(69,960)	(69,960)
Present value discount	(92)	(92)	(209)	(209)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,119,379)	(5,399)	-	(1,113,980)
Investment in subsidiaries and associates	(387,268)	(71,768)	(52,887)	(368,387)
Retirement insurance expense	(1,119,041)	(170,469)	(146,923)	(1,095,495)
Adjustments to the prepaid contributions	(62,569)	(61,034)	(57,505)	(59,040)
Others	(84,577)	(28,893)	(11,898)	(67,582)
	(3,618,057)	(1,072,491)	(988,691)	(3,534,257)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(17,205)			(4,901)
	(3,535,564)			(3,464,068)
Tax rate (%)	24.20			27.50
Total deferred income tax liabilities from taxable temporary differences[1]	(855,330)			(952,892)

[1]The corporate tax rate was changed due to the revision of the tax law at the end of 2017, and 27.5% of deferred tax assets (liabilities) are expected to be realized after 2018.

(In millions of Korean won)	2016			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	11,882	11,882	-	-
Other provisions	283,672	283,672	291,350	291,350
Impairment losses on property and equipment	20,738	20,738	20,812	20,812
Interest on equity index-linked deposits	287	287	168	168
Share-based payments	33,754	33,754	43,008	43,008
Provisions for guarantees	157,954	157,954	126,319	126,319
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	811,394	728	4,019	814,685
Gains on valuation of security investment	284,965	284,965	282,872	282,872
Defined benefit liabilities	1,118,809	48,247	169,352	1,239,914
Accrued expenses	190,228	190,228	959,532	959,532
Others	659,343	82,615	182,878	759,606
	3,653,230	1,115,070	2,080,310	4,618,470
Unrecognized deferred income tax assets				
Other provisions	67			-
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	788,196			788,196
Others	21,393			21,797
	2,763,370			3,728,273
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	668,732			903,002

(In millions of Korean won)	2016			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Losses from fair value hedge	-	-	(59,235)	(59,235)
Accrued interest	(179,394)	(128,026)	(129,797)	(181,165)
Deferred loan origination fees and costs	(497,418)	(497,418)	(497,149)	(497,149)
Gains on valuation of derivatives	(125,582)	(125,582)	(42,294)	(42,294)
Present value discount	(104)	(104)	(92)	(92)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	(7,463)	-	(1,119,379)
Investment in subsidiaries and associates	(407,434)	(67,101)	(46,935)	(387,268)
Retirement insurance expense	(973,303)	(48,247)	(193,985)	(1,119,041)
Adjustments to the prepaid	(90,653)	(90,653)	(62,569)	(62,569)
Others	(77,537)	(21,271)	(28,311)	(84,577)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(65,873)			(17,205)
	(3,412,394)			(3,535,564)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from taxable temporary differences	(825,684)			(855,330)

17. Other Assets

Details of other assets as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Other financial assets		
Other receivables	3,570,556	2,660,373
Accrued income	777,629	760,933
Guarantee deposits	1,041,519	1,120,685
Domestic exchange settlement debits	944,697	531,193
Others	59,294	9,584
Allowances for loan losses	(50,823)	(60,062)
Present value discount	(1,409)	(1,506)
	6,341,463	5,021,200
Other non-financial assets		
Other receivables	49	39
Prepaid expenses	108,685	112,993
Guarantee deposits	3,131	3,284
Others	68,829	79,061
Allowances on other assets	(22,575)	(23,305)
	158,119	172,072
	6,499,582	5,193,272

Changes in allowances for loan losses on other assets for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**		
	Other financial assets	**Other non-financial assets**	**Total**
Beginning	60,062	23,305	83,367
Provision	2,042	1,239	3,281
Written-off	(12,413)	(1,969)	(14,382)
Others	1,132	-	1,132
Ending	50,823	22,575	73,398

(In millions of Korean won)	**2016**		
	Other financial assets	**Other non-financial assets**	**Total**
Beginning	286,915	23,128	310,043
Provision	1,943	717	2,660
Written-off	(269,949)	(540)	(270,489)
Others	41,153	-	41,153
Ending	60,062	23,305	83,367

18. Assets Held for Sale

Details of assets held for sale as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017			
	Acquisition cost[1]	**Accumulated impairment losses**	**Carrying amount**	**Fair value less costs to sell**
Land	133,445	(1,492)	131,953	251,520
Buildings	34,862	(11,309)	23,553	24,548
	168,307	(12,801)	155,506	276,068

(In millions of Korean won)	2016			
	Acquisition cost[1]	**Accumulated impairment losses**	**Carrying amount**	**Fair value less costs to sell**
Land	27,787	(8,177)	19,610	21,182
Buildings	12,675	(5,758)	6,917	7,201
	40,462	(13,935)	26,527	28,383

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation before classified as assets held for sale.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as at December 31, 2017, are as follows:

(In millions of Korean won)	2017				
	Fair value	**Valuation technique[1]**	**Unobservable inputs[2]**	**Range of unobservable inputs (%)**	**Effect of unobservable inputs on fair value**
Land and buildings	276,068	Market comparison approach model and others	Adjustment index	0.20 ~ 1.10	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

[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.

Changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

2017				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
(13,935)	(16,994)	5,138	12,990	(12,801)

(In millions of Korean won)

2016				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
(13,861)	(5,268)	96	5,098	(13,935)

As of December 31, 2017, assets held for sale consist of Myeongdong head office building and ten real estates of closed offices, which the management of the Group was committed to sell, were not yet sold by December 31, 2017. The Group has completed its sale of Myeongdong head office building during February 2018, which has been entered into sales agreement in 2017. And three out of the above assets held for sale are under sales negotiation and the remaining seven assets are also being actively marketed.

19. Deposits

Details of deposits as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Demand deposits		
Demand deposits in Korean won	111,232,743	103,123,086
Demand deposits in foreign currencies	6,677,710	5,009,480
	117,910,453	108,132,566
Time deposits		
Time deposits in Korean won	126,778,455	120,469,784
	126,778,455	120,469,784
Time deposits in foreign currencies	4,622,516	4,314,783
Fair value adjustments on fair value hedged time deposits in foreign currencies	(51,033)	(61,656)
	4,571,483	4,253,127
	131,349,938	124,722,911
Certificates of deposits	3,218,540	2,880,557
Total deposits	252,478,931	235,736,034

20. Debts

Details of debts as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Borrowings	14,114,645	11,952,068
Bonds sold under repurchase agreements and others	710,370	1,271,908
Call money	985,738	2,710,433
	15,810,753	15,934,409

Details of borrowings as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)		**Lenders**	**Annual interest rate (%)**	**2017**	**2016**
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50 ~ 0.75	1,888,880	1,644,260
	Borrowings from the government	SEMAS and others	0.00 ~ 3.00	1,726,543	1,331,688
	Borrowings from non-banking financial institutions	Korea Development Bank	0.20 ~ 2.70	342,376	320,755
	Other borrowings	Korea Gas Safety Corporation and others	0.00 ~ 3.90	3,300,884	2,636,273
				7,258,683	5,932,976
Borrowings in foreign currencies	Due to banks	Commerzbank and others	-	19,820	70,624
	Borrowings from banking institutions	Central Bank Of Uzbekistan and others	0.15 ~ 2.30	5,463,262	3,949,377
	Borrowings from other financial institutions	Export Import Bank of Korea and others	1.90 ~ 2.83	76,134	121,104
	Other borrowings	Standard Chartered Bank and others	-	1,296,746	1,877,987
				6,855,962	6,019,092
				14,114,645	11,952,068

Details of bonds sold under repurchase agreements and others as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2017	2016
Bonds sold under repurchase agreements	Individuals, groups, corporations	1.46	700,466	1,261,371
Bills sold	Counter sale	0.40 ~ 1.00	9,904	10,537
			710,370	1,271,908

Details of call money as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2017	2016
Call money in Korean won	Deutsche Bank AG,SEOUL and others	1.33 ~ 1.48	577,100	1,525,500
Call money in foreign currencies	Central Bank of Uzbekistan and others	1.20 ~ 2.20	408,638	1,184,933
			985,738	2,710,433

21. Debentures

Details of debentures as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**Annual interest rate (%)**	**2017**	**2016**
Debentures in Korean won			
Structured debentures	0.29 ~ 6.00	135,800	337,500
Subordinated fixed rate debentures in Korean won	3.08 ~ 5.12	2,888,411	3,196,993
Fixed rate debentures in Korean won	1.29 ~ 3.45	13,236,365	7,259,095
Floating rate debentures in Korean won	-	-	680,000
		16,260,576	11,473,588
Fair value adjustments on fair value hedged debentures in Korean won		19,891	26,724
Discount on debentures in Korean won		(36,920)	(9,560)
		16,243,547	11,490,752
Debentures in foreign currencies			
Floating rate debentures	1.79~2.49	835,692	700,930
Fixed rate debentures	1.63~2.88	2,142,800	2,803,721
		2,978,492	3,504,651
Fair value adjustments on fair value hedged debentures in foreign currencies		(25,941)	(24,303)
Discount on debentures in foreign currencies		(12,300)	(11,408)
		2,940,251	3,468,940
		19,183,798	14,959,692

Changes in debentures based on face value for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	337,500	-	(201,700)	-	135,800
Subordinated fixed rate debentures	3,196,993	-	(308,582)	-	2,888,411
Fixed rate debentures	7,259,095	12,198,200	(6,220,930)	-	13,236,365
Floating rate debentures	680,000	-	(680,000)	-	-
	11,473,588	12,198,200	(7,411,212)	-	16,260,576
Debentures in foreign currencies					
Floating rate debentures	700,930	884,239	(670,236)	(79,241)	835,692
Fixed rate debentures	2,803,721	568,150	(945,394)	(283,677)	2,142,800
	3,504,651	1,452,389	(1,615,630)	(362,918)	2,978,492
	14,978,239	13,650,589	(9,026,842)	(362,918)	19,239,068

(In millions of Korean won)	2016				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	909,788	-	(572,288)	-	337,500
Subordinated fixed rate debentures	4,471,829	-	(1,274,836)	-	3,196,993
Fixed rate debentures	6,750,523	3,359,000	(2,850,428)	-	7,259,095
Floating rate debentures	-	680,000	-	-	680,000
	12,132,140	4,039,000	(4,697,552)	-	11,473,588
Debentures in foreign currencies					
Floating rate debentures	1,477,524	35,595	(806,459)	(5,730)	700,930
Fixed rate debentures	2,325,537	1,185,480	(817,096)	109,800	2,803,721
	3,803,061	1,221,075	(1,623,555)	104,070	3,504,651
	15,935,201	5,260,075	(6,321,107)	104,070	14,978,239

22. Provisions

Details of provisions as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Provisions for unused loan commitments	106,963	124,991
Provisions for acceptances and guarantees	88,808	126,428
Provisions for asset retirement obligation	85,575	77,810
Others	76,846	96,055
	358,192	425,284

Changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	124,991	126,428	251,419
Effects of changes in foreign exchange rate	(1,317)	(3,370)	(4,687)
Provision(Reversal)	(16,711)	(34,250)	(50,961)
Ending	106,963	88,808	195,771

(In millions of Korean won)	**2016**		
	Provisions for unused loan commitments	**Provisions for acceptances and guarantees**	**Total**
Beginning	126,282	158,454	284,736
Effects of changes in foreign exchange rate	203	738	941
Provision(Reversal)	(1,494)	(32,764)	(34,258)
Ending	124,991	126,428	251,419

Changes in provisions for asset retirement obligation for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Beginning	77,810	70,493
Provision	2,778	3,693
Reversal	(336)	(250)
Used	(6,712)	(4,788)
Unwinding of discount	1,746	1,631
Effects of changes in discount rate	10,289	7,031
Ending	85,575	77,810

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.

Changes in other provisions for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities[1]**	**Others**	**Total**
Beginning	115	50,396	8,537	1,870	358	34,779	96,055
Provision (Reversal)	185	5,133	1,390	(8)	(181)	27,781	34,300
Used and Others	(162)	(50,479)	(2,445)	-	-	(423)	(53,509)
Ending	138	5,050	7,482	1,862	177	62,137	76,846

[1] As at December 31, 2017, the estimated greenhouse gas emission is 112,121 tons.

(In millions of Korean won)

	2016						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities[1]**	**Others**	**Total**
Beginning	99	41,091	11,570	3,809	69	38,531	95,169
Provision	180	32,464	(1,456)	(1,939)	434	3,036	32,719
Used and Others	(164)	(23,159)	(1,577)	-	(145)	(6,788)	(31,833)
Ending	115	50,396	8,537	1,870	358	34,779	96,055

[1] As at December 31, 2016, the estimated greenhouse gas emission is 117,831 tons.

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.

Changes in the net defined benefit liabilities for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	1,380,236	(1,309,069)	71,167
Current service cost	141,486	-	141,486
Past service cost	4,185	-	4,185
Interest expense(income)	30,159	(28,360)	1,799
Remeasurements :			
- Actuarial loss arising from experience adjustment	11,520	-	11,520
-Actuarial gain arising from changes in financial assumptions	(42,579)	-	(42,579)
-Return on plan assets (excluding amounts included in interest income)	-	12,356	12,356
Contributions	-	(187,500)	(187,500)
Payments from plans (benefit payments)	(199,522)	199,522	-
Payments from the Group	(3,978)	-	(3,978)
Transfer in	2,744	(2,608)	136
Transfer out	(5,562)	5,562	-
Effects of changes in foreign exchange rate	(24)	-	(24)
Ending	1,318,665	(1,310,097)	8,568

(In millions of Korean won)	2016		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities
Beginning	1,260,675	(1,205,006)	55,669
Current service cost	159,268	-	159,268
Interest expense (income)	31,105	(29,723)	1,382
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	2,164	-	2,164
-Actuarial gain arising from changes in financial assumptions	(26,509)	-	(26,509)
-Actuarial loss arising from experience adjustment	4,000	-	4,000
-Return on plan assets (excluding amounts included in interest income)	-	9,655	9,655
Contributions	-	(130,000)	(130,000)
Payments from plans (benefit payments)	(45,733)	45,733	-
Payments from the Group	(4,496)	-	(4,496)
Transfer in	2,252	(2,236)	16
Transfer out	(2,508)	2,508	-
Effects of changes in foreign exchange rate	18	-	18
Ending	1,380,236	(1,309,069)	71,167

Details of the net defined benefit liabilities as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Present value of defined benefit obligation	1,318,665	1,380,236
Fair value of plan assets	(1,310,097)	(1,309,069)
Net defined benefit liabilities	8,568	71,167

Details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Current service cost	141,486	159,268
Past service cost	4,185	–
Interest expenses of net defined benefit liabilities	1,799	1,382
Total	147,470	160,650

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Remeasurements:		
-Actuarial gain(loss) arising from changes in demographic assumptions	–	(2,164)
-Actuarial gain arising from experience adjustment	(11,520)	(4,000)
-Actuarial loss arising from Changes in financial assumptions	42,579	26,509
-Return on plan assets (excluding amounts included in interest income)	(12,356)	(9,655)
Income tax effects	(4,526)	(2,587)
Remeasurements after income tax	14,177	8,103

Details of fair value of plan assets as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**		
	Assets quoted in an active market	**Assets not quoted in an active market**	**Total**
Time deposits	-	1,310,097	1,310,097

(In millions of Korean won)	**2016**		
	Assets quoted in an active market	**Assets not quoted in an active market**	**Total**
Time deposits	-	1,309,069	1,309,069

Key actuarial assumptions used as at December 31, 2017 and 2016, are as follows:

	Ratio (%)	
	2017	**2016**
Discount rate	2.90	2.50
Salary increase rate	3.75	3.75
Turnover	1.00	1.00

Mortality assumptions are based on the 8th experience-based mortality table of Korea Insurance Development Institute of 2015.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as at December 31, 2017, is as follows:

		Effect on defined benefit obligation	
	Changes in principal assumption	**Increase in principal assumption**	**Decrease in principal assumption**
Discount rate	0.5% p	3.80% decrease	4.06% increase
Salary increase rate	0.5% p	3.73% increase	3.54% decrease
Turnover	0.5% p	0.24% decrease	0.25% 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 at December 31, 2017, is as follows:

(In millions of Korean won)	**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	45,905	110,546	435,636	832,619	2,283,841	3,708,547

The weighted average duration of the defined benefit obligations is 8.09 years.

Expected contributions to plan assets for the period after December 31, 2017, are estimated to be approximately ₩ 140,000 million.

24. Other Liabilities

Details of other liabilities as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Other financial liabilities		
Other payables	4,006,412	2,782,247
Prepaid card and debit cards	2,018	1,929
Accrued expenses	2,356,270	2,380,057
Financial guarantee liabilities	24,337	22,377
Deposits for letter of guarantees and others	351,455	189,286
Domestic exchange settlement credits	39,445	1,332,503
Foreign exchanges settlement credits	124,728	116,226
Borrowings from other business accounts	5,408	5,204
Payables to trust accounts	5,018,031	4,430,508
Liabilities incurred from agency relationship	518,955	386,670
Account for agency businesses	257,760	248,253
Others	28,535	201,799
	12,733,354	12,097,059
Other non-financial liabilities		
Other payables	384,875	1,193,758
Unearned revenue	50,139	35,733
Accrued expenses	324,694	191,338
Withholding taxes	145,921	103,849
Others	104,583	80,833
	1,010,212	1,605,511
	13,743,566	13,702,570

25. Equity

25.1 Capital Stock

Details of outstanding shares of the Bank as at December 31, 2017 and 2016, are as follows:

	Ordinary shares	
	2017	**2016**
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.

25.2 Capital Surplus

Details of capital surplus as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
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	40,378	40,389
	5,219,693	5,219,704

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

Details of accumulated other comprehensive income as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Remeasurements of net defined benefit liabilities	(79,902)	(94,079)
Currency translation differences	(39,597)	27,509
Gains on valuation of available-for-sale financial assets	791,153	680,965
Share of other comprehensive income of associates	4,262	(87,577)
Gains on cash flow hedging instruments	7,751	337
Losses on hedges of a net investment in a foreign operations	(5,573)	(32,292)
	678,094	494,863

25.4 Retained Earnings

Retained earnings as at December 31, 2017 and 2016, consist of:

(In millions of Korean won)	2017	2016
Legal reserves	2,033,716	2,033,471
Regulatory reserve for credit losses	2,001,063	1,835,115
Voluntary reserves	11,044,972	10,596,846
Retained earnings before appropriation	2,324,000	1,123,107
	17,403,751	15,588,539

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.

Details of the regulatory reserve for credit losses as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Beginning	2,001,063	1,835,115
Amounts estimated to be appropriated(reversed)	149,709	165,948
Ending	2,150,772	2,001,063

Adjustments to the regulatory reserve for credit losses for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Provision (reversal) of regulatory reserve for credit losses	149,709	165,948
Adjusted profit after provision of regulatory reserve for credit losses[1]	2,024,996	798,308

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest Income and Expense

Details of interest income, expense, and net interest income for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Interest income		
Due from financial institutions	72,959	71,659
Loans	7,503,022	7,038,659
Financial investments		
Available-for-sale financial assets	389,570	313,850
Held-to-maturity financial assets	276,756	365,548
Others	96,117	104,440
	8,338,424	7,894,156
Interest expense		
Deposits	2,300,198	2,455,044
Debts	219,743	166,488
Debentures	369,224	396,508
Others	54,944	47,206
	2,944,109	3,065,246
Net interest income	5,394,315	4,828,910

Interest income recognized on impaired loans is ₩30,886 million (December 31, 2016: ₩41,990 million) for the year ended December 31, 2017.

27. Net Fee and Commission Income

Details of fee and commission income, and fee and commission expense for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Fee and commission income		
Banking activity fees	194,624	182,412
Lending activity fees	73,549	78,780
Agent activity fees	350,037	387,055
Trust and other fiduciary fees	305,989	182,405
Guarantee fees	29,419	30,538
Credit card related fees	1,279	1,293
Foreign currency related fees	93,096	97,394
Security activity commissions	176,209	157,218
Other business account commission on consignment	33,793	33,707
Debit card related fees and commissions	649	634
Others	212,836	158,946
	1,471,480	1,310,382
Fee and commission expense		
Trading activity related fees[1]	13,277	11,884
Lending activity fees	27,510	23,694
Credit card related fees	1,888	1,925
Contributions to external institutions	25,037	21,988
Outsourcing related fees	60,753	59,914
Foreign currency related fees	19,410	15,694
Management fees of written-off loans	10,359	11,925
Others	88,557	75,507
	246,791	222,531
Net fee and commission income	1,224,689	1,087,851

[1] Fees from financial assets/liabilities at fair value through profit or loss.

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 instruments held for trading 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.

Details for the years ended December 31, 2017 and 2016, are as follows:,

(In millions of Korean won)	**2017**	**2016**
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	190,827	203,083
Equity securities	31,436	5,818
	222,263	208,901
Derivatives held for trading		
Interest rate	1,203,802	972,660
Currency	5,494,382	3,719,392
Stock or stock index	496	456
Other	1,658	859
	6,700,388	4,693,367
Financial liabilities held for trading	78	528
Other financial instruments	109	239
	6,922,788	4,903,035
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	79,391	69,187
Equity securities	6,396	2,819
	85,787	72,006
Derivatives held for trading		
Interest rate	1,163,749	924,404
Currency	5,573,651	3,708,355
Stock or stock index	3,088	7,620
Other	2,647	772
	6,743,135	4,641,151
Financial liabilities held for trading	125	2,410
Other financial instruments	117	174
	6,829,164	4,715,741
Net gain or loss from financial instruments held for trading	93,624	187,294

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. Details for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Gains from financial assets designated at fair value through profit or loss		
Derivative linked securities	6,022	9,604
Losses from financial assets designated at fair value through profit or loss		
Derivative linked securities	384	-
Net gains or losses from financial assets designated at fair value through profit or loss	5,638	9,604

29. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	5	226
Gains on sale of available-for-sale financial assets	90,568	169,482
	90,573	169,708
Gains on foreign exchange transactions	2,257,371	3,328,516
Dividend income	112,781	85,339
Others	91,854	165,738
	2,552,579	3,749,301
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on sale of available-for-sale financial assets	147,558	27,966
Impairment losses on available-for-sale financial assets	12,405	22,225
	159,963	50,191
Losses on foreign exchange transactions	1,909,984	3,211,954
Others	770,719	888,206
	2,840,666	4,150,351
Net other operating expenses	(288,087)	(401,050)

30. General and Administrative Expenses

30.1 General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Employee Benefits		
Salaries and short-term employee benefits - salaries	1,531,078	1,469,499
Salaries and short-term employee benefits - welfare expense	644,881	659,522
Post-employment benefits - defined benefit plans	147,470	160,650
Post-employment benefits - defined contribution plans	3,594	3,729
Termination benefits	151,172	862,539
Share-based payments	33,148	19,347
	2,511,343	3,175,286
Depreciation and amortization	236,436	219,934
Other general and administrative expenses		
Rental expense	233,780	240,021
Tax and dues	97,786	81,669
Communication	22,281	22,990
Electricity and utilities	22,093	23,006
Publication	11,338	12,653
Repairs and maintenance	11,193	11,875
Vehicle	7,074	7,224
Travel	4,307	3,833
Training	16,764	16,998
Service fees	92,478	89,243
Others	398,949	364,217
	918,043	873,729
	3,665,822	4,268,949

30.2 Share-based Payments

30.2.1 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.

Details of the share grants as at December 31, 2017, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 64	15.07.24	11,133	Service period : 2 years [2,3]
Series 65	15.08.26	11,587	Service period : 2 years [2,3]
Series 67	16.01.01	135,934	Service period : 2 years [2,4]
Series 68	16.07.05	9,621	Service period : 2 years [2,4]
Series 69	17.01.01	323,777	Service period : 2 years [2,5]
Series 70	17.07.24	1,449	Service period : 2 years [2,5]
Series 71	17.08.26	4,372	Service period : 2 years [2,5]
Series 72	17.08.28	5,601	Service period : 2 years [2,5]
Deferred grant in 2014	-	35,312	
Deferred grant in 2015	-	61,328	
Deferred grant in 2016	-	155,407	
Deferred grant in 2017	-	31,547	
		787,068	

[1] Granted shares in relation to Series 64 ~ 72 represent the total number of shares granted to directors and employees but not vested at the end of reporting period. The number of deferred grants represents residual shares that have been vested at the end of reporting period.

[2] Executives and employees have the options to defer the timing of payment and change ratios and periods of payments.

[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 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] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of performance results, relative TSR and evaluation by the Bank's CEO, respectively. However, as for certain number of shares, half of the 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.

[5] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of performance results, relative TSR and evaluation by the Bank's CEO, respectively. However, as for certain number of shares, 30% and 70% of the number of shares to be granted are determined based on the accomplishment of relative TSR and the targeted performance rating results.

Details of share grants linked to short-term performance as at December 31, 2017, are as follows:

Share grants[1]	Grant date	Number of vested shares	Vesting conditions
Granted shares for 2014	14.01.01	53,771	Vested
Granted shares for 2015	15.01.01	100,548	Vested
Granted shares for 2016	16.01.01	141,707	Vested
Granted shares for 2017	17.01.01	99,185	Proportion to service period

[1] Executives and employees have the options to defer the timing of payment and change ratios and periods of payments.

Share grants are measured at fair value using the Monte Carlo Simulation Model and assumptions used in determining the fair value as at December 31, 2017, 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 64	0.00 ~ 3.00	1.87%~2.14%	57,602	58,516 ~ 61,791
Series 65	0.00 ~ 3.00	1.87%~2.14%	57,625	58,516 ~ 61,791
Series 67	0.00 ~ 5.00	1.87%~2.34%	61,139	55,745 ~ 61,791
Series 68	0.51 ~ 4.00	1.87%~2.24%	61,570	57,009 ~ 61,791
Series 69	0.00 ~ 6.00	1.87%~2.37%	61,607	54,116 ~ 61,791
Series 70	0.00 ~ 3.00	1.87%~2.14%	59,783	58,516 ~ 61,791
Series 71	2.00 ~ 5.00	2.00%~2.34%	60,107	55,745 ~ 60,194
Series 72	2.00 ~ 5.00	2.00%~2.34%	60,112	55,745 ~ 60,194
Grant deferred in 2014	-	1.87%	-	61,294
Grant deferred in 2015	0.00 ~ 4.00	1.87%~2.24%	-	57,009 ~ 61,791
Grant deferred in 2016	0.00 ~ 6.00	1.87%~2.37%	-	54,116 ~ 61,791
Grant deferred in 2017	0.00 ~ 2.89	1.87%~2.14%	-	57,581 ~ 62,053
Linked to short-term performance				
Share granted in 2014	-	1.87%	-	61,294
Share granted in 2015	0.00 ~ 5.00	1.87%~2.34%	-	55,745 ~ 61,791
Share granted in 2016	0.00 ~ 6.00	1.87%~2.37%	-	54,116 ~ 61,791
Share granted in 2017	1.00 ~ 6.00	1.87%~2.37%	-	54,116 ~ 61,791

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 at December 31, 2017, was used for the underlying asset price. Also, the average three-year historical dividend rate was used as the expected dividend rate.

As at December 31, 2017 and 2016, the accrued expenses related to share-based payments, including share grants, amounted to ₩58,897 million and ₩41,474 million, respectively, and the compensation costs from share grants amounting to ₩33,148 million and ₩19,347 million were incurred during the year ended December 31, 2017 and 2016, respectively.

30.2.2 Mileage Stock

Details of Mileage Stock as at December 31, 2017, are as follows:

(In number of shares)	**Grant date**	**Number of granted shares[1]**	**Expected exercise period (Years)[1]**	**Number of exercisable shares[2]**
Share granted in 2016	2016.01.23	33,829	0.00~1.06	18,196
	2016.04.29	60	0.00~1.33	39
	2016.07.07	280	0.00~1.52	125
	2016.07.18	767	0.00~1.55	-
	2016.08.03	107	0.00~1.59	53
	2016.08.17	51	0.00~1.63	44
	2016.08.30	256	0.00~1.66	219
	2016.09.06	206	0.00~1.68	120
	2016.10.07	105	0.00~1.77	97
	2016.11.01	118	0.00~1.84	95
	2016.12.07	211	0.00~1.93	150
	2016.12.08	43	0.00~1.94	43
	2016.12.15	12	0.00~1.96	12
	2016.12.20	309	0.00~1.97	307
	2016.12.28	76	0.00~1.99	64
	2016.12.30	210	0.00~2.00	159
Share granted in 2017	2017.01.09	28,925	0.00~2.02	25,521
	2017.02.03	43	0.00~2.09	43
	2017.04.03	82	0.00~2.25	82
	2017.05.22	20	0.00~2.39	20
	2017.07.03	52	0.00~2.50	52
	2017.08.16	204	0.00~2.62	204
	2017.08.17	40	0.00~2.63	40
	2017.08.22	33	0.00~2.64	33
	2017.08.25	387	0.00~2.65	387
	2017.09.14	82	0.00~2.70	82
	2017.10.20	9	0.00~2.80	9
	2017.11.01	120	0.00~2.84	120
	2017.11.06	106	0.00~2.85	106
	2017.12.06	77	0.00~2.93	77
	2017.12.08	28	0.00~2.94	28
	2017.12.26	254	0.00~2.99	254
	2017.12.29	114	0.00~2.99	114
		67,216		46,895

[1] Mileage stock is exercisable for two years after one year from the grant date. When the mileage stock is exercised, the closing price of prior month is applied. However, in case of transfer or retirement during the vesting period, mileage stock is exercisable at the closing price of the last month prior to transfer or retirement.

[2] The exercisable shares are assessed based on the stock price as at December 31, 2017. These shares are vested immediately at grant date.

The accrued expenses for share-based payments in regard to mileage stock as at December 31, 2017 and 2016, are ₩2,973 and ₩1,533 million. The compensation costs amounting to ₩2,378 and ₩1,563 million were recognized as an expense for the year ended December 31, 2017 and 2016, respectively.

31. Non-operating Income and Expenses

Details of non-operating income and expenses for years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Non-operating income		
Gains of disposal in property and equipment and assets held for sale	3,597	1,342
Rent received	25,063	28,303
Others	42,203	80,927
	70,863	110,572
Non-operating expenses		
Losses of disposal in property and equipment and assets held for sale	6,006	1,370
Donation	39,752	31,813
Restoration cost	3,323	2,421
Others	95,249	25,657
	144,330	61,261
Net non-operating income(expenses)	(73,467)	49,311

32. Income Tax Expense

Income tax expense for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Tax payable		
Current tax expense	342,256	492,690
Adjustments recognized in the period for current tax of prior years	(19,160)	21,521
	323,096	514,211
Changes in deferred income tax assets (liabilities)	217,754	(204,625)
Income tax expense of overseas branches	4,721	3,447
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	(82,670)	961
Changes in exchange difference of foreign operation	11,835	(3,154)
Changes in remeasurements of net defined benefit liabilities	(4,526)	(2,587)
Gains on hedging investment of a net investment in a foreign operation	(8,196)	2,176
Gains(Losses) on cash flow hedging instruments	(2,833)	(108)
Others	(1,245)	74
	(87,635)	(2,638)
Consolidated tax effect	(19,346)	(18,394)
Tax expense	438,590	292,001

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2017 and 2016, follows:

(In millions of Korean won)	2017	2016
Profit before income tax	2,613,295	1,256,257
Tax at the applicable tax rate[1]	631,955	303,552
Non-taxable income	(189,687)	(8,182)
Non-deductible expense	8,991	13,933
Tax credit and tax exemption	(296)	(241)
Temporary difference for which no deferred tax is recognized	1,166	3,877
Tax supplementary pay(rebate) for tax of prior years	(8,334)	(12,954)
Income tax expense of overseas branches	4,721	3,447
Tax effect of investments in subsidiaries	21,167	7,143
Foreign subsidiary tax rate difference effect	589	(730)
Consolidated tax effect	(19,347)	(18,394)
Change in tax rates effect	(14,299)	-
Others	1,964	550
Tax expense	438,590	292,001
Tax expense / Profit before income tax (%)	16.78	23.24

[1] Applicable income tax rate for ₩200 million and below is 11%, for over ₩200 million to ₩20 billion is 22%, and for over ₩20 billion is 24.2%.

Details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Income tax refund receivables prior to offsetting[1]	(115,881)	(153,916)
Tax payables prior to offsetting[2]	348,304	496,910
Tax payables (receivables) after offsetting	232,423	342,994
Adjustment on consolidated tax payable and others[3]	(19,347)	(18,394)
Accounts receivables (payables)[4]	(209,533)	(319,243)
Current tax payable	3,543	5,357

[1] Excludes current tax assets of ₩486 million (2016: ₩11,400 million) from uncertain tax position, which do not qualify for offsetting.
[2] Includes income tax payable of ₩3,543 million (2016: ₩5,357 million) under current tax liabilities as at December 31, 2017, 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 shareholder of the Bank in respect of the year ended December 31, 2017, of ₩1,583 per share, amounting to total dividends of ₩640,132 million, is to be proposed at the annual general shareholder's meeting on March 22, 2018. The Group's consolidated financial statements as at December 31, 2017, do not reflect this dividend payable.

34. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017					
	Beginning	Changes (excluding reclassification)	Reclassification to profit or loss	Tax effect	Classified as assets held for sale	Ending
Remeasurements of net defined benefit liabilities	(94,079)	18,703	-	(4,526)	-	(79,902)
Currency translation differences	27,509	(78,941)	-	11,835	-	(39,597)
Gain(loss) on valuation of available-for-sale financial assets	680,965	146,757	46,101	(82,670)	-	791,153
Share of other comprehensive income of associates	(87,577)	4,249	-	20,253	67,337	4,262
Gain(loss) on cash flow hedging instruments	337	10,691	(444)	(2,833)	-	7,751
Gain(loss) on hedging instruments of a net investment in foreign operations	(32,292)	34,915	-	(8,196)	-	(5,573)
Accumulated other comprehensive income related to held for sale	-	-	88,835	(21,498)	(67,337)	-
	494,863	136,374	134,492	(87,635)	-	678,094

(In millions of Korean won)	2016				
	Beginning	Changes (excluding reclassification)	Reclassification to profit or loss	Tax effect	Ending
Remeasurements of net defined benefit liabilities	(102,182)	10,690	-	(2,587)	(94,079)
Currency translation differences	32,993	(2,330)	-	(3,154)	27,509
Gains(losses) on valuation of available-for-sale financial assets	682,818	85,219	(88,033)	961	680,965
Gains(losses) on valuation of equity method investments	(87,346)	(305)	-	74	(87,577)
Gains(losses) on cash flow hedging instruments	-	445	-	(108)	337
Gains(losses) on hedges of a net investment in a foreign operations	(25,476)	(8,992)	-	2,176	(32,292)
	500,807	84,727	(88,033)	(2,638)	494,863

35. Trust Accounts

Financial information of the trust accounts the Group manages as at December 31, 2017 and 2016, and for the years ended December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017		2016	
	Total assets	**Operating revenues**	**Total assets**	**Operating revenues**
Consolidated	4,148,600	110,487	3,978,501	120,348
Unconsolidated	43,256,371	2,590,728	43,653,701	1,132,375
	47,404,971	2,701,215	47,632,202	1,252,723

[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 at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Assets		
Accrued trust fees	35,012	28,855
Liabilities		
Due to trust accounts	5,018,031	4,430,508
Accrued interest on due to trust accounts	7,632	6,767
	5,025,663	4,437,275

Significant revenue and expenses related to the Group's trust for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Revenues		
Fees and commissions from trust accounts	305,989	182,405
Commissions from early termination in trust accounts	91	65
	306,080	182,470
Expenses		
Interest expenses on due to trust accounts	43,944	37,750

36. Supplemental Cash Flow Information

Cash and cash equivalents as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Cash	2,167,172	2,154,729
Checks with other banks	430,253	400,422
Due from Bank of Korea	8,981,665	7,676,491
Due from other financial institutions	4,067,228	4,450,204
	15,646,318	14,681,846
Restricted due from financial institutions	(9,239,813)	(7,859,701)
Due from financial institutions with original maturities over three months	(328,551)	(483,987)
	(9,568,364)	(8,343,688)
	6,077,954	6,338,158

Significant non-cash transactions for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Decrease in loans due to the write-offs	650,419	977,988
Changes in accumulated other comprehensive income due to valuation of financial investments	110,188	(1,853)
Changes in accumulated other comprehensive income due to investment in associates	3,004	(231)
Changes in financial investments due to debt-for-equity swap	10,250	43,820
Reclassification from investments in associates to available-for-sale financial assets	-	220,809

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	Activities	2017	2016
Income tax paid	Operating	401,530	91,082
Interest received	Operating	8,766,970	8,088,194
Interest paid	Operating	2,937,348	3,191,351
Dividends received	Operating	102,328	86,651
Dividends paid	Financing	359,493	380,521

Changes in liabilities arising from financial activities for the periods ended December 31, 2017 are as follows:

(In millions of Korean won)

	Derivative financial instrument for hedging purposes[1]	Debts	Debentures	Payables to trust accounts	Finance lease liabilities	Deposits for letter of guarantees and others	Other payables	Total
Beginning	16,627	15,934,409	14,959,692	4,430,508	1,605	189,286	11,356	35,543,483
Cash flow	5,804	746,719	4,567,826	587,523	(1,455)	149,709	67,409	6,123,535
Lease newly acquired	-	-	-	-	1,471	-	-	1,471
Exchange differences	-	(869,706)	(362,917)	-	-	1,718	-	(1,230,905)
Changes in fair values	(20,716)	-	(6,804)	-	-	-	-	(27,520)
Changes from business combination	-	-	-	-	-	-	65,810	65,810
Other changes from non-cash transactions	(5,374)	(669)	26,001	-	21	10,742	61	30,782
Ending	(3,659)	15,810,753	19,183,798	5,018,031	1,642	351,455	144,636	40,506,656

[1] Derivative financial instruments held for hedging are shown at net amounts of liabilities and assets.

37. Contingent Liabilities and Commitments

Acceptances and guarantees as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017	2016
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	252,817	329,051
Others	530,272	588,950
	783,089	918,001
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	147,987	234,125
Letter of guarantees	60,853	64,189
Bid bond	46,984	64,242
Performance bond	563,506	703,076
Refund guarantees	778,779	1,689,343
Others	1,960,769	1,593,770
	3,558,878	4,348,745
Financial guarantees		
Acceptances and guarantee for issue of debentures	-	31,000
Acceptances and guarantees for mortgage	57,445	25,994
Overseas debt guarantees	285,577	272,255
International financing guarantees in foreign currencies	46,953	52,961
Others	270,000	270,000
	659,975	652,210
	5,001,942	5,918,956
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,250,543	2,068,106
Refund guarantees	384,958	217,272
	2,635,501	2,285,378
	7,637,443	8,204,334

Acceptances and guarantees by counterparty as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Large companies	4,185,975	1,913,114	6,099,089	79.86
Small medium sized companies	621,835	492,369	1,114,204	14.59
Public and others	194,132	230,018	424,150	5.55
	5,001,942	2,635,501	7,637,443	100.00

(In millions of Korean won)

	2016			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Large companies	5,129,393	1,644,556	6,773,949	82.57
Small medium sized companies	623,422	479,515	1,102,937	13.44
Public and others	166,141	161,307	327,448	3.99
	5,918,956	2,285,378	8,204,334	100.00

Acceptances and guarantees by industry as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

	2017			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	23,317	7,353	30,670	0.40
Manufacturing	2,799,593	1,270,721	4,070,314	53.29
Service	655,057	100,004	755,061	9.89
Wholesale and retail	935,647	837,230	1,772,877	23.21
Construction	335,156	198,996	534,152	6.99
Public	165,249	129,944	295,193	3.87
Others	87,923	91,253	179,176	2.35
	5,001,942	2,635,501	7,637,443	100.00

(In millions of Korean won)

	2016			
	Confirmed guarantees	**Unconfirmed guarantees**	**Total**	**Proportion (%)**
Financial institutions	74,282	3,710	77,992	0.95
Manufacturing	3,315,257	1,141,571	4,456,828	54.32
Service	765,051	63,847	828,898	10.10
Wholesale and retail	1,171,151	779,163	1,950,314	23.77
Construction	509,329	129,111	638,440	7.78
Public	82,646	92,445	175,091	2.13
Others	1,240	75,531	76,771	0.95
	5,918,956	2,285,378	8,204,334	100.00

Commitments as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Commitments		
Corporate loan commitments	32,786,234	36,012,231
Retail loan commitments	15,935,382	15,727,639
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Purchase of securities	1,129,408	1,521,778
	50,851,024	54,261,648
Financial Guarantees		
Credit line	1,953,579	2,418,997
Purchase of securities	354,800	290,100
	2,308,379	2,709,097
	53,159,403	56,970,745

Other Matters (including litigation)

a) The Bank has filed 90 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩469,188 million, and faces 104 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩192,674 million, which arose in the normal course of the business and are still pending as at December 31, 2017.

b) As at December 31, 2017, the Bank has entered into construction contracts amounting to ₩150,051 million and ₩105,175 million, respectively, related to the construction of integrated headquarter building and integrated IT center.

c) The face values of the securities sold to general customers through tellers' sale amount to ₩372 million and ₩5,731 million as at December 31, 2017 and 2016, respectively.

38. Subsidiaries

Details of subsidiaries as at December 31, 2017, are as follows:

Investor	Investee	Ownership (%)	Location	Industry
Kookmin Bank	Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank	Kookmin Bank Hong Kong Ltd.[1]	100.00	China	Banking and foreign exchange transaction
Kookmin Bank	Kookmin Bank Cambodia PLC.	100.00	Cambodia	Banking and foreign exchange transaction
Kookmin Bank	Kookmin Bank (China) Ltd.[2]	100.00	China	Banking and foreign exchange transaction
Kookmin Bank	KB Microfinance Myanmar Co., Ltd.	100.00	Myanmar	Micro finance services
Kookmin Bank	Personal pension trust and 10 others [3]	-	Korea	Trust
Kookmin Bank	KL the 1st L.L.C. and 27 others [4]	-	Korea	Asset-backed securitization and others
Kookmin Bank	KB Wise Star Private Real Estate Feeder Fund 1 [5]	86.00	Korea	Investment Trust

KB Wise Star Private Real Estate Feeder Fund 1	KB Star Retail Private Real Estate Master Fund 1 [4]	48.98	Korea	Investment Trust
KB Wise Star Private Real Estate Feeder Fund 1	KB Star Office Private Real Estate Master Fund 2 [4]	44.44	Korea	Investment Trust
Kookmin Bank	KB Multi-Asset Private SecuritiesFund 1 (Bond Mixed-FoFs) [5]	99.27	Korea	Investment Trust
KB Multi-Asset Private SecuritiesFund 1 (Bond Mixed-FoFs)	Global Diversified Multi-Asset Sub-Trust Class I A	100.00	United Kingdom	Investment Trust
Kookmin Bank	KB KBSTAR Short Term KTB Active ETF [5]	51.81	Korea	Investment Trust
Kookmin Bank	KB Multi-Asset Private SecuritiesFund S-1 (Bond Mixed) Class-C [5]	96.00	Korea	Investment Trust
Kookmin Bank	KB Multiasset Private SecuritiesFeeder Fund P-1 (Bond Mixed) C [5]	99.96	Korea	Investment Trust
KB Multiasset Private SecuritiesFeeder Fund P-1 (Bond Mixed) C	KB Multiasset Private SecuritiesMaster Fund P-1 (Bond Mixed)	100.00	Korea	Investment Trust
Kookmin Bank	SAMSUNG KODEX 10Y F-LKTB INV ETF [5]	97.15	Korea	Investment Trust
Kookmin Bank	KB Haeorum Private securities 83 [5]	96.14	Korea	Investment Trust
Kookmin Bank	KB KBSTAR KTB 3Y Futures Inverse ETF	95.65	Korea	Investment Trust

[1] On January 4, 2017, the Bank converted Kookmin Bank Hong Kong Ltd. into a Hong Kong branch of the Bank. This conversion is a business combination of entities under common control. The Bank accounted the business combination under carrying amount method, and the transferred assets and liabilities are measured at the carrying amount included in the consolidated financial statements. At the date of the combination, the transferred assets and liabilities amounted to ₩ 855,731 million and ₩ 852,993 million, respectively.

[2] Kookmin Bank (China) Ltd.'s functional currency has changed from USD to CNY in 2016.

[3] 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.

[4] 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.

[5] 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.

The condensed financial information of major subsidiaries as at December 31, 2017 and 2016, and for the years ended December 31, 2017 and 2016, is as follows:

(In millions of Korean won)	2017				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit(Loss) for the period**
Kookmin Bank Int'l Ltd.(London)	506,474	423,252	83,222	15,931	3,022
Kookmin Bank Hongkong Ltd.	22,866	-	22,866	-	(1,953)
Kookmin Bank Cambodia PLC.	133,133	76,680	56,453	8,267	984
Kookmin Bank (China) Ltd.	2,007,154	1,606,434	400,720	70,142	1,118
KB Microfinance Myanmar Co.,Ltd.	10,372	400	9,972	623	(664)
Personal pension trust and 10 others	4,162,200	4,055,204	106,996	111,187	4,825

(In millions of Korean won)	2016				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit for the period**
Kookmin Bank Int'l Ltd.(London)	501,788	410,962	90,826	13,699	3,982
Kookmin Bank Hongkong Ltd.	926,001	760,112	165,889	19,105	5,648
Kookmin Bank Cambodia PLC.	162,133	99,510	62,623	6,858	742
Kookmin Bank (China) Ltd.	1,838,326	1,415,062	423,264	57,769	5,282
Personal pension trust and 10 others	4,016,964	3,913,743	103,221	122,195	2,899

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 has provided purchase commitment and grant of credit to the structured entities that are considered as subsidiaries. The Bank should purchase unsold commercial paper securities if there is a shortage of the investors for the commercial paper securities issued by the structured entity. If events causing the cessation of the issuance of commercial paper securities occur or if the structured entities become insolvent, the Bank should provide loans to the structured entities under certain conditions.

(In millions of Korean won)	**2017**
LIIV FOR RENTAL 1st L.L.C.	70,126
Silver Investment the 2nd Inc.	50,000
HLD the 3rd L.L.C.	105,400
LOG the 3rd L.L.C.	24,300
Icheon Albatross L.L.C.	30,175
KDL the 1st L.L.C.	46,740
KBC the 2nd L.L.C.	50,097
KBC the 1st L.L.C.	35,073
KBH the 3rd L.L.C.	50,098
KBH the 2nd L.L.C.	28,153
KBH the 1st L.L.C.	20,070
KBM the 1st L.L.C.	50,190
KB INO the 1st L.L.C.	40,157
KB HUB the 1st L.L.C.	30,100
KH the 4th L.L.C.	25,091
KH the 3rd L.L.C.	70,100
KH the 2nd L.L.C.	40,682
KLD the 1st L.L.C.	8,100
KL International the 1st L.L.C.	40,253
KL the 3rd L.L.C.	30,108
KL the 1st L.L.C.	50,125
KL Food the 1st L.L.C.	50,127
KY the 1st L.L.C.	24,029
KB Green the 1st L.L.C.	35,150

- 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

KB Microfinance Myanmar Co., Ltd. and 18 other subsidiaries were newly consolidated and KB Haeoreum Private Securities Investment Trust 37(Bond) and 8 other subsidiaries were de-consolidated during the year ended December 31, 2017.

Net cash flow from changes in subsidiaries

The net cash inflow from subsidiaries newly consolidated and de-consolidated is amounting to ₩109,564 million and ₩49,294 million, respectively for the year ended December 31, 2017.

39. Unconsolidated Structured Entity

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

Kookmin Bank and Subsidiaries
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As at December 31, 2017 and 2016, 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)

	2017				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	99,835,410	21,636,792	25,929,064	4,890,100	152,291,366
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	168,647	-	-	-	168,647
Derivative financial assets	268	-	-	-	268
Loans	239,894	2,021,225	-	327,875	2,588,994
Financial investments	6,400,833	7,867	2,309,361	17,055	8,735,116
Investments in associates	-	-	235,234	-	235,234
Other assets	-	710	-	-	710
	6,809,642	2,029,802	2,544,595	344,930	11,728,969
Liabilities					
Deposits	484,890	755,242	50,832	3,985	1,294,949
Derivative financial liabilities	229	-	-	-	229
Other liabilities	-	29	45	-	74
	485,119	755,271	50,877	3,985	1,295,252
Maximum exposure to loss					
Asset[1]	6,809,642	2,029,802	2,544,595	344,930	11,728,969
Purchase and capital commitments	20,000	-	1,178,462	-	1,198,462
Unused providing lines of credit	2,082,736	-	-	-	2,082,736
Acceptances and guarantees and Loan commitments	382,300	1,385,722	-	-	1,768,022
	9,294,678	3,415,524	3,723,057	344,930	16,778,189
Methods of determining the maximum exposure to loss	Providing lines of credit / Purchase commitments / Acceptances and guarantees and Loan commitments	Loan commitments / capital commitments / purchase commitments and Acceptances and guarantees	Capital commitments	Loan commitments	

(In millions of Korean won)

	2016				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	70,019,012	21,562,287	15,125,330	2,140,135	108,846,764
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	129,742	-	-	-	129,742
Derivative financial assets	110	-	-	-	110
Loans	438,711	2,283,110	-	146,256	2,868,077
Financial investments	6,394,577	8,595	3,654,414	17,046	10,074,632
Investments in associates	-	-	229,561	-	229,561
	6,963,140	2,291,705	3,883,975	163,302	13,302,122
Liabilities					
Deposits	528,035	703,049	49,587	6,857	1,287,528
	528,035	703,049	49,587	6,857	1,287,528
Maximum exposure to loss					
Asset[1]	6,963,140	2,291,705	3,883,975	163,302	13,302,122
Purchase and capital commitments	-	-	1,620,871	-	1,620,871
Unused providing lines of credit	2,420,854	-	-	-	2,420,854
Acceptances and guarantees and Loan commitments	290,100	1,475,760	-	-	1,765,860
	9,674,094	3,767,465	5,504,846	163,302	19,109,707
Methods of determining the maximum exposure to loss	Providing lines of credit / Purchase commitments / Acceptances and guarantees and Loan 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.

40. Finance and Operating Leases

40.1 Finance Lease

The future minimum lease payments as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Net carrying amount of finance lease assets	17,768	24,290
Minimum lease payments		
Within 1 year	1,660	1,572
1-5 years	-	54
	1,660	1,626
Present value of minimum lease payments		
Within 1 year	1,642	1,551
1-5 years	-	54
	1,642	1,605

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 at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Minimum lease payments		
Within 1 year	123,869	116,505
1-5 years	138,666	133,381
Over 5 years	34,129	34,488
	296,664	284,374
Minimum sublease payments	(2,461)	(1,891)

The lease payments reflected in profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Lease payment reflected in profit or loss		
Minimum lease payments	159,413	166,120
Sublease payments	(1,177)	(1,002)
	158,236	165,118

40.2.2 The Group as Operating Lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017**	**2016**
Minimum lease receipts		
Within 1 year	17,430	18,383
1-5 years	34,079	33,031
	51,509	51,414

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)

		2017	**2016**
Parent			
KB Financial Group Inc.	Fee and commission income	2,961	3,422
	Other operating income	110	-
	Other non-operating income	778	765
	Interest expense	3,151	2,262
	General and administrative expenses	671	203
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Fee and commission income	1,125	889
	Other non-operating income	3	3
	Interest expense	272	820
	Fee and commission expense	1,488	635
KB Real Estate Trust Co., Ltd.	Fee and commission income	114	35
	Other non-operating income	44	39
	Interest expense	160	139
	Fee and commission expense	1,577	1,195
KB Investment Co., Ltd.	Fee and commission income	36	11
	Interest expense	270	480
KB Credit Information Co., Ltd.	Fee and commission income	67	33
	Other non-operating income	231	298
	Interest expense	90	129
	Fee and commission expense	13,995	16,444
	General and administrative expenses	365	-
KB Data System Co., Ltd.	Fee and commission income	131	34
	Other non-operating income	95	74
	Interest expense	173	165
	Other non-operating expense	-	33
	General and administrative expenses	45,517	16,046
KB Life Insurance Co., Ltd.	Fee and commission income	14,418	12,380
	Gains on financial assets/ liabilities at fair value through profit or loss	1,302	2,018

	Other non-operating income	4,223	466
	Interest expense	968	965
	Fee and commission expense	5	-
	Losses on financial assets/ liabilities at fair value through profit or loss	10,779	486
	General and administrative expenses	1,793	1,942
KB Kookmin Card Co., Ltd.	Interest income	3,549	3,307
	Fee and commission income	236,355	243,282
	Gains on financial assets/ liabilities at fair value through profit or loss	263	3,376
	Other non-operating income	1,003	1,212
	Interest expense	1,289	3,010
	Fee and commission expense	777	176
	Losses on financial assets/liabilities at fair value through profit or loss	6,825	-
	Provision for credit losses	292	70
	General and administrative expenses	279	163
KB Savings Bank Co., Ltd.	Fee and commission income	273	246
	Other non-operating income	47	39
	Interest expense	7	-
KB Capital Co., Ltd.	Interest income	89	-
	Fee and commission income	1,264	579
	Other non-operating income	156	115
	Interest expense	247	4
	Provision for credit losses	105	-
KB Insurance Co., Ltd.	Interest income	53	63
	Fee and commission income	22,856	12,019
	Gains on financial assets/liabilities at fair value through profit or loss	3,345	4,822
	Reversal for credit losses	-	30
	Other non-operating income	280	110
	Interest expense	2,268	1,057
	Losses on financial assets/liabilities at fair value through profit or loss	53,165	3,384
	General and administrative expenses	14,663	11,154
KB Securities Co., Ltd.	Interest income	56	1,706
	Fee and commission income	13,511	6,535
	Gains on financial assets/ liabilities at fair value through profit or loss	3,295	7,189
	Other operating income	-	4
	Reversal of credit losses	123	38
	Other non-operating income	7,339	1,645
	Interest expense	2,914	2,398
	Fee and commission expense	397	428
	Losses on financial assets/ liabilities at fair value through profit or loss	7,237	10,250

	General and administrative expenses	803	-
Hanbando BTL Private Special Asset Fund	Fee and commission income	170	179
KB Senior Loan Private Fund No.1	Fee and commission income	31	32
KB AMP Infra Private Special Asset Fund 1(FoFs)	Fee and commission income	10	-
KB Onkookmin 2020 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2025 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2030 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2035 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2040 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2045 TDF Fund(FoFs)	Fee and commission income	1	-
KB Onkookmin 2050 TDF Fund(FoFs)	Fee and commission income	1	-
KB Muni bond Private Securities Fund 1(USD)(bond)	Fee and commission income	2	-
KB Mezzanine Private Securities Fund[1]	Fee and commission income	-	52
Associates			
Korea Credit Bureau Co., Ltd.	Fee and commission income	4	3
	Interest expense	132	92
Incheon Bridge Co., Ltd.	Interest income	25,511	14,534
	Reversal of credit losses	43	-
	Interest expense	292	369
	Provision for credit losses	-	30
MJT&I Corp.	Interest income	-	2
Doosung Metal Co., Ltd.	Interest income	-	1
Jaeyang Industry Co., Ltd.	Interest income	98	-
	Reversal of credit losses	6	37
Dong Jo Co., Ltd	Reversal of credit losses	2	-
Dae-A Leisure Co., Ltd	Interest expense	1	-
KB12-1 Venture Investment Partnership	Interest expense	18	35
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Interest expense	-	10
KB High-tech Company Investment Fund	Interest expense	65	76
Aju Good Technology Venture Fund	Interest expense	14	4
KB-KDBC New Technology Business Investment Fund	Interest expense	4	-
UAMCO., Ltd.[1]	Fee and commission income	-	5
	Interest expense	-	1
United PF 1st Recovery Private Equity Fund[1]	Interest expense	-	1
Paroman Corporation Co., Ltd. [1]	Reversal for credit losses	345	-
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	63	87
Associates of parent's subsidiaries			
KB No.5 Special Purpose Acquisition Company[1]	Interest expense	-	19
KB No.6 Special Purpose Acquisition Company[1]	Interest expense	-	14
KB No.7 Special Purpose Acquisition Company[1]	Interest expense	-	18
KB No.8 Special Purpose Acquisition Company	Interest expense	36	35
KB No.9 Special Purpose Acquisition Company	Interest expense	33	40
KB No.10 Special Purpose Acquisition Company	Interest expense	24	8

SY Auto Capital Co., Ltd.	Interest income	102	193
	Reversal for credit losses	32	-
	Interest expense	22	19
	Provision for credit losses	-	61
RAND Bio Science Co., Ltd.	Interest expense	16	14
Inno Lending Co., Ltd.	Fee and commission income	3	-
	Interest expense	1	-
Wise Asset Management Co., Ltd.	Interest expense	5	-
Food Factory Co., Ltd	Interest income	1	-
POSCO-KB Shipbuilding Restructuring Fund	Interest expense	3	-
Kyobo 7 Special Purpose Acquisition Co., Ltd.[1]	Interest expense	1	-
KB IC 3rd Private Equity Fund	Interest expense	-	12
Other			
Retirement pension	Fee and commission income	795	717
	Interest expense	3	749

[1] Not considered to be the Group's related party as at December 31, 2017.

Details of receivables and payables, and related allowances for loan losses arising from the related party transactions as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)		**2017**	**2016**
Parent			
KB Financial Group Inc.	Other assets	2,837	3,313
	Deposits	46,062	57,967
	Other liabilities	283,610	426,522
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Other assets	231	226
	Deposits	8,958	73,279
	Other liabilities	327	410
KB Real Estate Trust Co., Ltd.	Deposits	16,187	21,211
	Other liabilities	347	353
KB Investment Co., Ltd.	Deposits	19,816	23,954
	Other liabilities	62	55
KB Credit Information Co., Ltd.	Other assets	-	6
	Deposits	4,444	3,465
	Other liabilities	5,714	6,439
KB Data System Co., Ltd.	Other assets	3,711	2,312
	Deposits	15,036	10,926
	Other liabilities	4,788	2,366
KB Life Insurance Co., Ltd.	Other assets	562	976
	Derivative assets	-	2,018
	Deposits	372	700
	Debts	25,000	25,000
	Other liabilities	3,171	3,136
	Derivative liabilities	6,580	-
KB Kookmin Card Co., Ltd.	Gross amounts of loans	6,806	-
	Other assets	25,454	25,573
	Derivative assets	-	3,376
	Deposits	85,091	160,002
	Provisions	777	485
	Other liabilities	48,073	50,231
	Derivative liabilities	3,298	-

KB Savings Bank Co., Ltd.	Other assets	2	77
	Other liabilities	391	378
KB Capital Co., Ltd.	Gross amounts of loans	19,285	-
	Allowances	105	-
	Other assets	89	17
	Deposits	73,906	9,075
	Other liabilities	45	-
KB Insurance Co., Ltd.	Other assets	7,183	8,372
	Derivative assets	-	3,941
	Deposits	7,034	9,883
	Debts	20,000	20,000
	Debentures	49,981	-
	Other liabilities	2,720	1,240
	Derivative liabilities	22,818	2,811
KB Securities Co., Ltd.	Cash and due from financial institutions	622	284
	Gross amounts of loans	4,346	-
	Other assets	2,267	395
	Derivative assets	1,095	2,739
	Deposits	436,508	116,893
	Debentures	-	300
	Provisions	97	234
	Other liabilities	15,387	191,719
	Derivative liabilities	1,481	2,018
Hanbando BTL Private Special Asset Fund	Other assets	42	44
KB Senior Loan Private Fund No.1	Other assets	6	8
KB Onkookmin 2025 TDF Fund(FoFs)	Other assets	1	-
KB Onkookmin 2030 TDF Fund(FoFs)	Other assets	1	-
KB Muni bond Private Securities Fund 1(USD)(bond)	Other assets	2	-
Associates			
Korea Credit Bureau Co., Ltd.	Deposits	25,513	26,827
	Other liabilities	111	75
Incheon Bridge Co., Ltd.	Gross amounts of loans	200,400	209,094
	Allowances	287	330
	Other assets	710	821
	Deposits	48,795	38,556
	Other liabilities	29	166
Terra Corporation	Deposits	10	-
Jungdong Steel Co., Ltd.	Deposits	3	3
Jaeyang Industry Co., Ltd.	Gross amounts of loans	-	303
	Allowances	-	6
	Other assets	-	7
Jungdo Co., Ltd.	Deposits	4	-
Dong Jo Co., Ltd.	Gross amounts of loans	116	-
	Allowances	1	-
Dae-A Leisure Co., Ltd.	Deposits	466	-
	Other liabilities	14	-
Daesang Techlon Co., Ltd	Deposits	2	-
KB12-1 Venture Investment Partnership	Deposits	4,963	4,562
	Other liabilities	2	2
KB High-tech Company Investment Fund	Deposits	7,212	4,643
	Other liabilities	5	4
Aju Good Technology Venture Fund	Deposits	2,771	1,201
	Other liabilities	1	1

KB-KDBC New Technology Business Investment Fund	Deposits	7,500	-
	Other liabilities	4	-
JSC Bank CenterCredit[1]	Cash and due from financial institutions	-	8
EJADE Co., Ltd.[1]	Deposits	-	2
KB Star office Private real estate Investment Trust No.1	Deposits	6,962	6,682
	Other liabilities	45	50
Associates of Parent's subsidiaries			
KB No.8 Special Purpose Acquisition Company	Deposits	2,339	2,342
	Other liabilities	19	3
KB No.9 Special Purpose Acquisition Company	Deposits	2,309	2,399
	Other liabilities	38	6
KB No.10 Special Purpose Acquisition Company	Deposits	1,698	1,754
	Other liabilities	10	8
SY Auto Capital Co., Ltd.	Gross amounts of loans	-	10,000
	Allowances	-	32
	Other assets	-	6
	Deposits	6	3,997
	Provisions	29	29
	Other liabilities	-	6
RAND Bio Science Co., Ltd.	Deposits	1,032	2,356
	Other liabilities	4	12
Inno Lending Co.,Ltd.	Deposits	41	1,902
Wise Asset Management Co., Ltd.	Deposits	340	-
	Other liabilities	1	-
Built On Co., Ltd.	Deposits	26	-
Food Factory Co., Ltd.	Gross amounts of loans	200	-
	Other assets	1	-
	Deposits	1	-
Acts Co., Ltd.	Deposits	4	-
isMedia Co.,Ltd.[1]	Provisions	-	4
KB IC 3rd Private Equity Fund[1]	Deposits	-	700
	Other liabilities	-	1
Key management	Gross amounts of loans	1,619	1,938
	Other assets	2	2
	Deposits	8,042	8,043
	Other liabilities	121	138
Others			
Retirement pension	Other assets	348	304
	Deposits	-	1,464
	Other liabilities	4,286	16,497

[1] Not considered to be the Group's related party as at December 31, 2017.

In accordance with Korean IFRS 1024, the Group includes the Parent, the Parent's subsidiaries, associates, associates of the 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 Bank 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.

Notional amount of derivative assets and liabilities arising from the related party transactions as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)		**2017**	**2016**
Parent's subsidiaries			
KB Life Insurance Co., Ltd.	Notional amount of Derivative financial instruments	155,567	25,076
KB Kookmin Card Co., Ltd.	Notional amount of Derivative financial instruments	79,106	90,425
KB Insurance Co., Ltd.	Notional amount of Derivative financial instruments	491,133	251,833
KB Securities Co., Ltd.	Notional amount of Derivative financial instruments	151,204	226,678

Significant loan transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	**2017[1]**			
	Beginning	**Loans**	**Repayments**	**Ending**
Parent's subsidiaries				
KB Securities Co., Ltd.	-	1,534,202	1,529,856	4,346
KB Kookmin Card Co., Ltd.	-	157,871	151,065	6,806
KB Capital Co., Ltd.	-	19,285	-	19,285
Associate				
Incheon Bridge Co., Ltd.	209,094	202,500	211,194	200,400
Associate of Parent's subsidiary				
SY Auto Capital Co., Ltd.	10,000	24,031	34,031	-
Food Factory Co., Ltd.	-	200	-	200

(In millions of Korean won)	**2016[1]**			
	Beginning	**Loans**	**Repayments**	**Ending**
Parent's subsidiaries				
KB Securities Co., Ltd.	8,438	2,656,456	2,664,894	-
KB Kookmin Card Co., Ltd.	-	260,589	260,589	-
Associate				
Incheon Bridge Co., Ltd.	231,653	4,000	26,559	209,094
Associate of Parent's subsidiary				
SY Auto Capital Co., Ltd.	-	10,052	52	10,000

[1] Transactions between related parties, such as settlements arising from operating activities and daylight overdraft to be repaid on the day of handling, are excluded.

Significant borrowing transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(In millions of Korean won)	2017[1]				
	Beginning	**Borrowings**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Life Insurance Co., Ltd.	25,000	-	-	-	25,000
KB Insurance Co., Ltd.	20,000	-	-	49,981	69,981
KB Securities Co., Ltd.	300	-	-	(300)	-

(In millions of Korean won)	2016[1]				
	Beginning	**Borrowings**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Life Insurance Co., Ltd.	25,000	-	-	-	25,000
KB Insurance Co., Ltd.	20,000	-	-	-	20,000
KB Securities Co., Ltd.	-	-	-	300	300

[1] Transactions between related parties, such as settlements arising from operating activities and deposits, are excluded.

Unused commitments provided to related parties as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)		**2017**	**2016**
Parent's subsidiaries			
KB Investment Co., Ltd.	Purchase of securities	-	200
	Loss sharing agreements	1,000	1,000
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	813,194	520,000
	Other commitments in Korean won	1,000,000	1,000,000
KB Securities Co., Ltd.	Loan commitment in Korean won	135,653	192,500
Hanbando BTL Private Special Asset Fund	Purchase of securities	-	15,931
Hope Sharing BTL Private Special Asset Fund	Purchase of securities	-	48,045
KB Mezzanine Private Security Investment Trust No.2	Purchase of securities	11,141	30,589
KB Senior Loan Private Fund No.1	Purchase of securities	3,770	35,958
Associates			
Balhae Infrastructure Fund	Purchase of securities	12,564	13,371
Incheon Bridge Co., Ltd.	Loan commitment in Korean won	20,000	50,000
KoFC KBIC Frontier Champ 2010-5 (PEF)	Purchase of securities	1,290	1,290
KB GwS Private Securities Investment Trust	Purchase of securities	876	876
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Purchase of securities	10,040	10,040
Future Planning KB Start-up Creation Fund	Purchase of securities	-	4,000
KB High-tech Company Investment Fund	Purchase of securities	-	10,000

Aju Good Technology Venture Fund	Purchase of securities	11,768	18,000
KB-KDBC New Teechnology Business Investment Fund	Purchase of securities	7,500	-
Associates of Parent's subsidiaries			
SY Auto Capital Co., Ltd.	Loan commitment in Korean won	10,000	10,000
isMedia Co.,Ltd. [1]	Loan commitment in Korean won	-	1,260
Key management	Loan commitment in Korean won	458	437

[1] Not considered to be the Group's related party as at December 31, 2017.

Unused commitments received from related parties as at December 31, 2017 and 2016, are as follows:

(In millions of Korean won)		**2017**	**2016**
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	12,117	10,967
KB Real Estate Trust Co., Ltd.	Purchase of securities	4,319	4,319
KB Life Insurance Co., Ltd.	Purchase of securities	21,595	21,595
KB Securities Co., Ltd.	Purchase of securities	4,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	85,114	77,967

Compensation to key management for the years ended December 31, 2017 and 2016, consists of:

(In millions of Korean won)	**2017**			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	1,270	60	1,831	3,161
Registered directors (non-executive)	315	-	-	315
Non-registered directors	4,990	178	7,966	13,134
	6,575	238	9,797	16,610

(In millions of Korean won)	**2016**			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	909	40	1,191	2,140
Registered directors (non-executive)	303	-	-	303
Non-registered directors	4,009	156	4,724	8,889
	5,221	196	5,915	11,332

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 at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)		2017		2016	
	Assets pledged	**Carrying amount**	**Collateralized amount**	**Carrying amount**	**Collateralized amount**
Parent's subsidiaries					
KB Securities Co., Ltd.	Securities	75,990	76,000	74,964	75,000
KB Life Insurance Co., Ltd.	Securities	26,128	25,000	26,197	25,000
	Building / Land	229,023	32,500	217,369	32,500
KB Insurance Co., Ltd.	Securities	50,000	50,000	50,000	50,000
	Building / Land	229,023	26,000	217,369	26,000

Collateral received from related parties as at December 31, 2017 and 2016, is as follows:

(In millions of Korean won)		**2017**	**2016**
Parent's subsidiaries			
KB Securities Co., Ltd.	Time deposits/ Beneficiary right certificate	167,000	206,250
	Securities	20,000	20,000
KB Life Insurance Co., Ltd.	Securities	10,000	10,000
KB Kookmin Card Co., Ltd.	Time deposits	22,000	22,000
KB Insurance Co., Ltd.	Securities	58,000	50,000
Key management	Time deposits and others	388	251
	Real estate	2,287	2,759

As at December 31, 2017, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance management rights as unsubordinated collateral in respect to collateralized amount for ₩611,000 million to a financial syndicate consisting of the Bank and five other institutions, and as subordinated collateral in respect to collateralized amount for ₩384,800 million to subordinated debt holders consisting of the Bank and two other institutions. Also, it provides certificate of credit guarantee amounting to ₩400,000 million as collateral to a financial syndicate consisting of the Bank and five other institutions.

The Bank and KB Kookmin Card Co., Ltd. are jointly and severally 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 at and for the year ended December 31, 2017, was approved by the Board of Directors on February 7, 2018.

Independent Auditor's Report

(English Translation of a Report Originally Issued in 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 referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including 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 the 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

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 8, 2017

This report is effective as of March 8, 2017, 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, 2016 and 2015

(In millions of Korean won)	Notes		2016		2015
Assets					
Cash and due from financial institutions	4,6,7,36	₩	14,681,846	₩	14,562,990
Financial assets at fair value through profit or loss	4,6,8,12		7,956,232		6,487,617
Derivative financial assets	4,6,9		2,796,445		2,186,010
Loans	4,6,8,10,11		236,551,052		222,738,064
Financial investments	4,6,8,12		35,732,406		32,911,986
Investments in associates	13		367,976		670,139
Property and equipment	14		3,117,391		2,909,372
Investment property	14		372,880		413,179
Intangible assets	15		210,714		181,599
Current income tax assets	32		11,937		18,325
Deferred income tax assets	16,32		47,692		8,321
Assets held for sale	18		26,527		33,795
Other assets	4,6,17		5,193,272		7,156,510
Total assets		₩	307,066,370	₩	290,277,907
Liabilities					
Financial liabilities at fair value through profit or loss	4,6	₩	73,238	₩	69,465
Derivative financial liabilities	4,6,9		2,833,598		2,138,723
Deposits	4,6,19		235,736,034		224,333,507
Debts	4,6,20		15,934,409		14,291,815
Debentures	4,6,21		14,959,692		15,949,134
Provisions	22		425,284		450,398
Net defined benefit liabilities	23		71,167		55,669
Current income tax liabilities	32		5,357		7,121
Deferred income tax liabilities	16,32		19		165,273
Other liabilities	4,6,24,30		13,702,570		10,069,591
Total liabilities			283,741,368		267,530,696
Equity	25				
Capital stock			2,021,896		2,021,896
Capital surplus			5,219,704		5,219,704
Accumulated other comprehensive income	34		494,863		500,807
Retained earnings	33		15,588,539		15,004,804
(Provision of regulatory reserve for credit losses					
December 31, 2016 : ₩1,835,115 million					
December 31, 2015 : ₩1,867,761 million)					
(Amounts estimated to be appropriated(reversed)					
December 31, 2016 : ₩165,948 million					
December 31, 2015 : ₩(32,646) million)					
Equity attributable to Shareholder of the Parent company			23,325,002		22,747,211
Non-controlling interest equity			-		-
Total equity			23,325,002		22,747,211
Total liabilities and equity		₩	307,066,370	₩	290,277,907

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, 2016 and 2015

(In millions of Korean won)	Notes		2016		2015
Interest income		₩	7,894,156	₩	8,388,382
Interest expense			(3,065,246)		(3,676,635)
Net interest income	26		4,828,910		4,711,747
Fee and commission income			1,310,382		1,372,054
Fee and commission expense			(222,531)		(215,681)
Net fee and commission income	27		1,087,851		1,156,373
Net gains on financial assets/liabilities at fair value through profit or loss	28		196,898		287,028
Net other operating expenses	29		(401,050)		(421,726)
General and administrative expenses	14,15,23,30,40		(4,268,949)		(3,811,821)
Operating profit before provision for credit losses			1,443,660		1,921,601
Provision for credit losses	11,17,22		(254,329)		(741,620)
Operating profit			1,189,331		1,179,981
Share of profit of associates	13		17,615		7,812
Net other non-operating income	31		49,311		193,436
Net non-operating profit			66,926		201,248
Profit before income tax expense			1,256,257		1,381,229
Income tax expense	32		(292,001)		(273,991)
Profit for the year			964,256		1,107,238
(Adjusted profit after provision of regulatory reserve for credit losses	25				
2016 : ₩798,308 million					
2015 : ₩1,139,884 million)					
Items that will not be reclassified to profit or loss:					
Remeasurements of net defined benefit liabilities	23		8,103		(14,494)
Items that may be reclassified subsequently to profit or loss:					
Currency translation adjustments			(5,484)		45,142
Losses on valuation of financial investments			(1,853)		(77,712)
Share of other comprehensive income(loss) of associates			(231)		2,536
Loss on hedging instruments of net investments in foreign operations			(6,816)		(25,476)
Gains on cash flow hedging instruments			337		-
	34		(5,944)		(70,004)
Total comprehensive income for the year		₩	958,312	₩	1,037,234
Profit attributable to:					
Shareholder of the parent company			964,256		1,107,238
Non-controlling interests			-		-
		₩	964,256	₩	1,107,238
Total comprehensive income for the year attributable to:					
Shareholder of the parent company			958,312		1,037,234
Non-controlling interests			-		-
		₩	958,312	₩	1,037,234

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, 2016 and 2015

	Attributable to Shareholder of the Bank					
(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, 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 a net investment in a foreign operation	-	-	(25,476)	-	-	(25,476)
Total comprehensive income for the year	-	-	(70,004)	1,107,238	-	1,037,234
Transactions with shareholder						
Dividends	-	-	-	(230,496)	-	(230,496)
Total transactions with shareholder	-	-	-	(230,496)	-	(230,496)
Balance at December 31, 2015	₩ 2,021,896	₩ 5,219,704	₩ 500,807	₩ 15,004,804	₩ -	₩ 22,747,211
Balance at January 1, 2016	₩ 2,021,896	₩ 5,219,704	₩ 500,807	₩ 15,004,804	₩ -	₩ 22,747,211
Comprehensive income for the year						
Profit for the year	-	-	-	964,256	-	964,256
Remeasurements of net defined benefit liabilities	-	-	8,103	-	-	8,103
Currency translation adjustments	-	-	(5,484)	-	-	(5,484)
Losses on valuation of financial investments	-	-	(1,853)	-	-	(1,853)
Share of other comprehensive income of associates	-	-	(231)	-	-	(231)
Losses on hedging instruments of net investments in foreign operations	-	-	(6,816)	-	-	(6,816)
Gains on cash flow hedging instruments			337			337
Total comprehensive income for the year	-	-	(5,944)	964,256	-	958,312
Transactions with shareholder						
Dividends	-	-	-	(380,521)	-	(380,521)
Total transactions with shareholder	-	-	-	(380,521)	-	(380,521)
Balance at December 31, 2016	₩ 2,021,896	₩ 5,219,704	₩ 494,863	₩ 15,588,539	₩ -	₩ 23,325,002

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, 2016 and 2015

(In millions of Korean won)	Notes	2016	2015
Cash flows from operating activities			
Profit for the year		₩ 964,256	₩ 1,107,238
Adjustment for non-cash items			
Net gains on financial assets/liabilities at fair value through profit or loss		(13,371)	(24,656)
Losses on derivative financial investments for hedging purposes		62,332	39,381
Adjustment of fair value of derivative financial instruments		338	1,771
Provision for credit losses		254,329	741,620
Net gains on financial investments		(119,516)	(179,901)
Share of profit of associates		(17,615)	(7,812)
Depreciation and amortization expense		219,934	204,467
Other net losses on property and equipment/intangible assets		4,828	7,225
Share-based payment		19,347	11,915
Post-employment benefits		160,650	164,173
Net interest income		328,731	430,411
Losses on foreign currency translation		204,143	250,568
Other expense(income)		(166)	54,409
		1,103,964	1,693,571
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(1,479,957)	1,034,252
Derivative financial instrument		24,221	91,296
Loans		(14,115,666)	(12,192,923)
Deferred income tax assets		6,389	287,506
Current income tax assets		(38,895)	(2,553)
Other assets		2,292,763	(612,548)
Financial liabilities at fair value through profit or loss		3,746	17,742
Deposits		11,267,180	12,605,816
Deferred income tax liabilities		(166,807)	83,471
Other liabilities		1,144,256	(779,103)
		(1,062,770)	532,956
Net cash inflow from operating activities		1,005,450	3,333,765
Cash flows from investing activities			
Net cash flows from derivative financial instrument for hedging purposes		509	-
Disposal of financial investments		25,827,783	19,594,218
Acquisition of financial investments		(28,369,287)	(23,176,836)
Decrease in investments in associates		106,052	36,318
Acquisition of investments in associates		(28,727)	(27,999)
Disposal of property and equipment		806	1,764
Acquisition of property and equipment		(349,724)	(172,590)
Acquisition of investment property		(1,254)	(4,290)
Disposal of intangible assets		4,166	3,525
Acquisition of intangible assets		(73,970)	(26,203)
Others		43,249	97,950
Net cash outflow from investing activities		(2,840,397)	(3,674,143)
Cash flows from financing activities			
Net cash flows from derivative financial instrument for hedging purposes		21,169	(29,326)
Net increase (decrease) in debts		1,452,671	(177,914)
Increase in debentures		5,244,976	5,383,612
Decrease in debentures		(6,322,089)	(4,905,441)
Payment of dividends		(380,521)	(230,496)
Net increase in other payables from trust accounts		1,639,779	367,493
Others		(36,679)	4,338
Net cash inflow from financing activities		1,619,306	412,266
Exchange gains on cash and cash equivalents		84,293	65,558
Net increase (decrease) in cash and cash equivalents		(131,348)	137,446
Cash and cash equivalents at the beginning of the year	36	6,469,506	6,332,060
Cash and cash equivalents at the end of year	36	₩ 6,338,158	₩ 6,469,506

The accompanying notes are an integral part of these consolidated financial statements.

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 shareholder 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, 2016, 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, 2016, the Bank operates 1,130 domestic branches and offices, and four overseas branches (excluding four subsidiaries and three offices).

2. Basis of Preparation

2.1 Application of Korean IFRS

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 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.

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 amended and enacted standards and interpretations for the annual period beginning on January 1, 2016, and this application does not have a material impact on the consolidated financial statements.

- Amendment to Korean IFRS 1001 *Presentation of Financial Statements*
- Amendment to Korean IFRS 1027 *Separate Financial Statements*
- Amendment to Korean IFRS 1110 *Consolidated Financial Statements,* and Korean IFRS 1112*, Disclosures of Interests in Other Entities: Exemption for consolidation of investee,* and Korean IFRS 1028, *Investments in Associates and Joint Arrangements*
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

Also, new standards and interpretations issued but not effective for the financial period beginning January 1, 2016, and not early adopted are as follows:

- Amendment to Korean IFRS 1007 *Statement of Cash Flows*

This amendment requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The Group will apply this amendment for annual reporting periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1012 *Income Tax*

This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendment issued clarifies the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. The Group will apply the amendment for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

This amendment clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The Group will apply the amendments for annual periods beginning on or after January 1, 2018 with early application permitted. The Group does not expect the amendment to have a significant impact on the consolidated financial statements.

- Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Group will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, the entity is not required to restate prior periods in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korea IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Group's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

Within the Group, Korean IFRS 1109 Task Force Team ('TFT') has been set up to prepare for implementation of Korean IFRS 1109 since September 2015. There are three stages for implementation of Korean IFRS, such as analysis, design and implementation, and preparation for application. The Group is analyzing financial impacts of Korean IFRS 1109 on its consolidated financial statements.

Stage	Period	Process
1	From Oct. to Dec. 2015 (for 3 months)	Analysis of GAAP differences and development of methodology
2	From Jan. to Dec. 2016 (for 12 months)	Development of methodology, definition of business requirement, and the system development and test.
3	From Jan. 2017 to Mar. 2018 (for 15months)	Preparation for opening balances of the financial statements

Meanwhile, the following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. For hybrid (combined) instruments, if the Group is unable to measure an embedded derivative separately from its host contract, financial assets with embedded derivatives are classified in their entirety.

Business model	***Contractual cash flows characteristics***	
	Solely represent payments of principal and interest	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and trading	Recognized at fair value through other comprehensive income[1]	
Hold for trading	Recognized at fair value through profit or loss	

[1]A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).
[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result in an increased fluctuation in profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result, profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost,
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Group will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage		Loss allowance
1	No significant increase in credit risk after initial recognition	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125 %) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

- Korean IFRS 1115*, Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers.*

Korean IFRS 1018 and other, the current standard, provide revenue recognition criteria by type of transactions; such as, sales goods, the rendering of services, interest income, royalty income, dividend income, and construction contracts. However, Korean IFRS 1115, the new standard, is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

2.2 Measurement Basis

The consolidated financial statements have been prepared under the historical cost convention unless otherwise specified.

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 Critical Accounting 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 a 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.

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.

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.

The Group determines at each reporting period 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 'non-operating income(expense)' 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 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 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.

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.

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 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 entirely 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.

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 of 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 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 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 all of 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.

Objective evidence that a financial asset or group of assets is impaired includes 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).

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. The impairment loss on available-for-sale financial assets is directly deducted from the carrying amount.

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.

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. 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. 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 and non-derivatives as hedging instruments to hedge the risk of changes in fair value and cash flow of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge and cash flow 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.

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 Cash Flow Hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and the ineffective portion is recognized in gain or loss. The associated gains or losses that were previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affects profit or loss. Cash flow 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. When the cash flow hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income are reclassified to profit or loss over the year in which the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses that had been recognized in other comprehensive income are immediately reclassified to profit or loss.

3.7.4 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*.

3.7.5 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.

3.7.6 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.

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 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.

The depreciation method and estimated useful lives of the assets are as follows:

Investment Properties	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	2 ~ 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 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.

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.

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 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.

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.

3.17 Financial Guarantee Contracts

A financial guarantee contract is a contract that requires 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.

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.

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 negotiation or participation in negotiation for the third party such as trading stocks or other securities, arranging transfer and acquisition of business is recognized as revenue when the transaction has been completed.

A syndication fee received by the Bank 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.

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 period.

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.

3.20.3 Share-based Payment

The Group has share grant and mileage stock programs to directors and employees of the Group. The Group has a choice of whether to settle share grant in cash or by issuing equity instruments of KB Financial Group Inc., the ultimate parent company, at the date of settlement, while the Group shall settle the mileage stock in cash based on the stock price.

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 fair value of the employee service is recognized as expense and accrued expenses over the vesting period. Also, the Group accounts for the mileage stock in accordance with the requirements of cash-settled share-based payment transactions, and recognizes the corresponding liability and expenses at the vesting period.

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 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.

Deferred tax assets and liabilities shall be 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 tax liabilities and deferred tax assets shall reflect 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 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.

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.

This 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 management. 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 Internal 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 Subcommittee 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 approves exotic and hybrid products accompanying credit risk and reviews newly developed products accompanying credit risk. Also, it reviews and approves the exposure limits by industry.

- 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 internal capital on assets that are subject to credit risk management whether on- or off-balance sheet items and uses expected losses and internal capital as a management indicator. The Group manages credit risk by allocating credit risk internal 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 group, which are independent from the sales department, are responsible for loan policy, loan limit, loan review, credit evaluation, restructuring and subsequent events. The credit risk management group is also responsible for planning risk management policy, applying limits of credit lines, measuring the credit risk internal 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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Financial assets		
Due from financial institutions	₩ 12,126,695	₩ 12,092,294
Financial assets at fair value through profit or loss		
Financial assets held for trading[1]	7,765,467	6,356,529
Financial assets designated at fair value through profit or loss	129,535	70,198
Derivatives	2,796,445	2,186,010
Loans[2]	236,551,052	222,738,064
Financial investments		
Available-for-sale financial assets	21,807,445	18,293,533
Held-to-maturity financial assets	8,427,498	11,748,794
Other financial assets[2]	5,021,200	6,887,727
	294,625,337	280,373,149
Off-balance sheet items		
Acceptances and guarantees contracts	7,552,124	8,932,463
Financial guarantee contracts	3,361,307	4,014,116
Commitments	54,261,648	56,752,653
	65,175,079	69,699,232
	₩ 359,800,416	₩ 350,072,381

[1] The amounts of ₩72,349 million and ₩69,060 million as of December 31, 2016 and 2015, 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.

Loans are categorized as follows:

(In millions of Korean won)

Loans	2016					
	Retail		Corporate		Total	
	Amount	%	Amount	%	Amount	%
Neither past due nor impaired	₩ 122,595,003	98.96	₩ 112,711,155	98.64	₩ 235,306,158	98.81
Past due but not impaired	825,239	0.67	191,029	0.17	1,016,268	0.43
Impaired	457,086	0.37	1,367,151	1.19	1,824,237	0.76
	123,877,328	100.00	114,269,335	100.00	238,146,663	100.00
Allowances	(333,269)	0.27	(1,262,342)	1.10	(1,595,611)	0.67
Carrying amount	₩ 123,544,059		₩ 113,006,993		₩ 236,551,052	

(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	₩ 115,534,171		₩ 107,203,893		₩222,738,064	

Credit qualities of loans that are neither past due nor impaired are as follows:

(In millions of Korean won)

	2016		
	Retail	**Corporate**	**Total**
Grade 1	₩ 106,054,765	₩ 53,999,305	₩ 160,054,070
Grade 2	14,292,822	49,186,970	63,479,792
Grade 3	1,519,409	7,563,785	9,083,194
Grade 4	516,670	1,614,152	2,130,822
Grade 5	211,337	346,943	558,280
	₩ 122,595,003	₩ 112,711,155	₩ 235,306,158

(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
	₩ 114,339,823	₩ 106,622,773	₩ 220,962,596

Credit qualities 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

Loans that are past due but not impaired are as follows:

(In millions of Korean won)

	2016			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 705,551	₩ 79,990	₩ 39,698	₩ 825,239
Corporate	130,005	38,210	22,814	191,029
	₩ 835,556	₩ 118,200	₩ 62,512	₩ 1,016,268

(In millions of Korean won)

	2015			
	1 ~ 29 days	**30 ~ 59 days**	**60 ~ 89 days**	**Total**
Retail	₩ 935,766	₩ 108,682	₩ 51,326	₩ 1,095,774
Corporate	214,332	55,832	13,074	283,238
	₩ 1,150,098	₩ 164,514	₩ 64,400	₩ 1,379,012

Impaired loans are as follows:

(In millions of Korean won)

	2016		
	Retail	**Corporate**	**Total**
Loans	₩ 457,086	₩ 1,367,151	₩ 1,824,237
Allowances	(146,507)	(894,227)	(1,040,734)
Individual	-	(770,805)	(770,805)
Collective	(146,507)	(123,422)	(269,929)
	₩ 310,579	₩ 472,924	₩ 783,503

(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)
	₩ 322,067	₩ 756,001	₩ 1,078,068

A quantification of the extent to which collateral and other credit enhancements mitigate credit risk as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
Guarantee	₩ 21,168	₩ 118,611	₩ 186,762	₩ 52,128,706	₩ 52,455,247
Deposits and savings	10,000	6,026	27,493	1,574,010	1,617,529
Property and equipment	4,280	1,531	142	1,735,898	1,741,851
Real estate	169,837	317,314	588,736	136,804,042	137,879,929
	₩ 205,285	₩ 443,482	₩ 803,133	₩192,242,656	₩193,694,556

(In millions of Korean won)

	2015				
	Impaired Loans		**Non-impaired Loans**		
	Individual	**Collective**	**Past due**	**Not past due**	**Total**
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
	₩ 205,331	₩ 554,678	₩1,102,226	₩174,699,066	₩176,561,301

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 as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Securities that are neither past due nor impaired	₩ 38,057,596	₩ 36,399,994
Impaired securities	-	-
	₩ 38,057,596	₩ 36,399,994

The credit quality of securities, excluding equity securities that are neither past due nor impaired, as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016					
	Grade 1	**Grade 2**	**Grade 3[1]**	**Grade 4**	**Grade 5**	**Total**
Financial assets held for trading	₩ 6,313,489	₩ 1,373,625	₩ 6,004	₩ -	₩ -	₩ 7,693,118
Financial assets designated at fair value through profit or loss	129,535	-	-	-	-	129,535
Available-for-sale financial assets	21,655,179	123,614	28,652	-	-	21,807,445
Held-to-maturity financial assets	8,427,498	-	-	-	-	8,427,498
	₩ 36,525,701	₩1,497,239	₩ 34,656	₩ -	₩ -	₩ 38,057,596

(In millions of Korean won)

	2015					
	Grade 1	**Grade 2**	**Grade 3[1]**	**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
	₩ 34,605,508	₩ 1,721,084	₩ 73,402	₩ -	₩ -	₩ 36,399,994

[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		
	KIS	NICE P&I	FN	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, 2016 and 2015, is as follows:

(In millions of Korean won)	2016	2015
Deposits and savings, securities and others	₩ 444,170	₩ 424,559

4.2.7 Credit Risk Concentration Analysis

Details of the Group's loans by country as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
Korea	₩ 123,804,999	₩ 111,399,307	₩235,204,306	98.76	₩ (1,554,872)	₩233,649,434
China	-	1,324,839	1,324,839	0.56	(23,288)	1,301,551
Japan	1,352	90,977	92,329	0.04	(10,384)	81,945
United States	-	984,472	984,472	0.41	(2,031)	982,441
Europe	1	206,580	206,581	0.09	(1,719)	204,862
Others	70,976	263,160	334,136	0.14	(3,317)	330,819
Total	₩ 123,877,328	₩ 114,269,335	₩238,146,663	100.00	₩ (1,595,611)	₩236,551,052

(In millions of Korean won)

	2015					
	Retail	**Corporate**	**Total**	**%**	**Allowances**	**Carrying amount**
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	₩ 115,966,585	₩ 108,797,358	₩224,763,943	100.00	₩ (2,025,879)	₩222,738,064

Details of the Group's corporate loans by industry as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Loans	**%**	**Allowances**	**Carrying amount**
Financial institutions	₩ 8,789,886	7.69	₩ (4,170)	₩ 8,785,716
Manufacturing	36,381,882	31.85	(530,456)	35,851,426
Service	47,905,220	41.92	(298,079)	47,607,141
Wholesale and retail	13,865,864	12.13	(108,688)	13,757,176
Construction	2,895,971	2.53	(291,646)	2,604,325
Public	855,715	0.75	(6,307)	849,408
Others	3,574,797	3.13	(22,996)	3,551,801
	₩ 114,269,335	100.00	₩ (1,262,342)	₩ 113,006,993

(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
	₩ 108,797,358	100.00	₩ (1,593,465)	₩ 107,203,893

Details of the Group's retail loans by type as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Loans	**%**	**Allowances**	**Carrying amount**
Housing purpose	₩ 58,724,113	47.41	₩ (17,939)	₩ 58,706,174
General purpose	65,153,215	52.59	(315,330)	64,837,885
	₩ 123,877,328	100.00	₩ (333,269)	₩ 123,544,059

(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
	₩ 115,966,585	100.00	₩ (432,414)	₩ 115,534,171

Details of the Group's securities excluding equity securities and derivative financial instruments by industry as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	
	Amount	%
Financial assets held for trading		
Government and government funded institutions	₩ 2,780,010	36.14
Finance and Insurance	3,880,523	50.44
Others	1,032,585	13.42
	7,693,118	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	129,535	100.00
	129,535	100.00
Derivative financial assets		
Government and government funded institutions	91,705	3.28
Finance and Insurance	2,501,525	89.45
Others	203,215	7.27
	2,796,445	100.00
Available-for-sale financial assets		
Government and government funded institutions	9,394,127	43.08
Finance and Insurance	11,099,951	50.90
Others	1,313,367	6.02
	21,807,445	100.00
Held-to-maturity financial assets		
Government and government funded institutions	3,166,355	37.57
Finance and Insurance	5,110,783	60.64
Others	150,360	1.79
	8,427,498	100.00
	₩ 40,854,041	

(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
	6,287,469	100.00
Financial assets designated at fair value through profit or loss		
Finance and Insurance	70,198	100.00
	70,198	100.00
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
	2,186,010	100.00
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
	18,293,533	100.00
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
	11,748,794	100.00
	₩ 38,586,004	

Details of the Group's securities excluding equity securities and derivative financial instruments by country, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	
	Amount	**%**
Financial assets held for trading		
Korea	₩ 7,468,314	97.08
Others	224,804	2.92
	7,693,118	100.00
Financial assets designated at fair value through profit or loss		
Korea	129,535	100.00
	129,535	100.00
Derivative financial assets		
Korea	1,955,822	69.94
United States	242,763	8.68
United Kingdom	117,318	4.20
France	202,001	7.22
Others	278,541	9.96
	2,796,445	100.00
Available-for-sale financial assets		
Korea	21,377,838	98.03
Others	429,607	1.97
	21,807,445	100.00
Held-to-maturity financial assets		
Korea	7,279,423	86.38
Others	1,148,075	13.62
	8,427,498	100.00
	₩ 40,854,041	

(In millions of Korean won)	2015	
	Amount	%
Financial assets held for trading		
Korea	₩ 6,255,711	99.49
Others	31,758	0.51
	6,287,469	100.00
Financial assets designated at fair value through profit or loss		
Korea	70,198	100.00
	70,198	100.00
Derivative financial assets		
Korea	1,198,321	54.82
United States	297,323	13.60
United Kingdom	227,235	10.40
France	195,005	8.92
Others	268,126	12.26
	2,186,010	100.00
Available-for-sale financial assets		
Korea	17,958,267	98.17
Others	335,266	1.83
	18,293,533	100.00
Held-to-maturity financial assets		
Korea	11,373,754	96.81
Others	375,040	3.19
	11,748,794	100.00
	₩ 38,586,004	

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.

The remaining contractual maturity of financial assets and liabilities, excluding derivatives held for cash flow hedging, as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016						
	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]	₩ 6,146,827	₩ 158,794	₩ 302,774	₩ 221,887	₩ -	₩ -	₩ 6,830,282
Financial assets held for trading[2]	7,826,697	-	-	-	-	-	7,826,697
Financial assets designated at fair value through profit or loss[2]	129,535	-	-	-	-	-	129,535
Derivatives held for trading[2]	2,736,840	-	-	-	-	-	2,736,840
Derivatives held for fair value hedging[3]	-	4,039	1,722	1,791	(3,473)	53,185	57,264
Loans	-	14,900,098	23,401,467	82,205,491	64,172,410	88,571,195	273,250,661
Available-for-sale financial assets[4]	6,014,328	535,451	1,542,125	5,506,765	13,070,553	2,365,520	29,034,742
Held-to-maturity financial assets	-	172,694	408,549	1,035,711	4,918,815	3,426,234	9,962,003
Other financial assets	-	3,225,789	-	1,122,047	-	-	4,347,836
	₩ 22,854,227	₩ 18,996,865	₩25,656,637	₩90,093,692	₩82,158,305	₩94,416,134	₩334,175,860
Financial liabilities							
Financial liabilities held for trading[2]	₩ 73,238	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 73,238
Derivatives held for trading[2]	2,769,675	-	-	-	-	-	2,769,675
Derivatives held for fair value hedging[3]	-	3,462	(5,306)	(8,333)	(39,870)	-	(50,047)
Deposits[5]	114,690,384	13,828,525	24,751,241	71,868,404	10,294,522	3,790,529	239,223,605
Debts	1,027	5,504,309	2,218,672	4,120,280	4,224,025	116,023	16,184,336

(In millions of Korean won)	2016						
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Debentures	52,188	1,281,867	1,383,926	3,773,687	7,192,288	2,306,476	15,990,432
Other financial liabilities	-	9,522,926	717	77,912	10,758	82,421	9,694,734
	₩117,586,512	₩30,141,089	₩28,349,250	₩79,831,950	₩21,681,723	₩6,295,449	₩283,885,973
Off-balance sheet items							
Commitments[6]	₩ 54,261,648	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 54,261,648
Financial guarantee contracts[7]	3,361,307	-	-	-	-	-	3,361,307
	₩ 57,622,955	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 57,622,955

(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 fair value 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[2]	₩ 69,465	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 69,465
Derivatives held for trading[2]	2,116,752	-	-	-	-	-	2,116,752
Derivatives held for fair value 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

[1] The amounts of ₩ 7,859,440 million and ₩ 6,905,996 million, which are restricted amount due from the financial institutions as of December 31, 2016 and 2015, respectively, are excluded.

[2] Financial instruments held for trading, financial assets designated at fair value through profit or loss, financial liabilities 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. However, the cash flows of the embedded derivatives (e.g. conversion options and others) which are separated from their host contracts in accordance with the requirement of Korean IFRS 1039, are considered in the cash flows of the host contracts.
[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.

The remaining contractual cash flows of derivatives held for cash flow hedging as of December 31, 2016, are as follows:

(In millions of Korean won)	2016					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash flow to be received of net settlement derivatives	₩ 69	₩ -	₩ 152	₩ -	₩ -	₩ 221
Cash flow to be paid of net settlement derivatives	60	3	-	-	-	63

There were no balances of derivatives held for cash flow hedging as of December 31, 2015.

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 internal 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 Asset-Liability Management Committee (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 Council monitors 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 EaR, 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 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 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 during 2016 and 2015, is as follows:

(In millions of Korean won)	2016			
	Average	**Minimum**	**Maximum**	**Ending**
Interest rate risk	₩ 15,683	₩ 10,817	₩ 19,538	₩ 14,906
Stock price risk	1,757	726	2,269	1,201
Foreign exchange rate risk	16,493	10,123	22,206	10,123
Deduction of diversification effect				(6,477)
Total VaR	₩ 19,018	₩ 11,558	₩ 28,519	₩ 19,753

(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	₩ 23,930	₩ 11,730	₩ 33,885	₩ 23,186

The required equity capital using the standard method related to the positions which are not measured by VaR as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	**2016**	**2015**
Interest rate risk	₩ 15,162	₩ 34
Stock price risk	4,817	118
	₩ 19,979	₩ 152

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 portfolios 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 portfolios 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 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 99.90%(December 31, 2015 : 99.94%) confidence level. The measurement results of risk as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Interest Rate VaR	₩ 75,990	₩ 94,500

4.4.5 Financial Assets and Liabilities in Foreign Currencies

Financial assets and liabilities in foreign currencies as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
Financial assets							
Cash and due from financial institutions	₩ 2,059,412	₩ 208,000	₩ 147,467	₩ 17,224	₩ 600,682	₩ 257,095	₩ 3,289,880
Financial assets held for trading	158,599	123,733	2,545	-	-	-	284,877
Derivatives held for trading	71,843	-	-	-	-	-	71,843
Derivatives held for hedging	5,917	-	-	-	-	-	5,917
Loans	10,762,600	342,100	895,208	5,798	552,966	178,361	12,737,033
Available-for-sale financial assets	1,508,838	91,017	-	-	35,873	871	1,636,599
Held-to-maturity financial assets	1,148,075	-	-	-	-	-	1,148,075
Other financial assets	916,058	245,827	35,981	30,792	172,437	85,899	1,486,994
	₩16,631,342	₩ 1,010,677	₩ 1,081,201	₩ 53,814	₩ 1,361,958	₩ 522,226	₩ 20,661,218
Financial liabilities							
Derivatives held for trading	₩ 73,379	₩ -	₩ 29	₩ -	₩ -	₩ -	₩ 73,408
Derivatives held for hedging	63,634	-	-	-	-	-	63,634
Deposits	6,965,320	596,607	457,418	52,719	791,027	399,516	9,262,607
Debts	6,828,519	169,507	83,105	279	85,123	37,492	7,204,025
Debentures	3,468,940	-	-	-	-	-	3,468,940
Other financial liabilities	1,447,380	52,275	534,224	1,429	176,381	50,735	2,262,424
	18,847,172	818,389	1,074,776	54,427	1,052,531	487,743	22,335,038
Off-balance sheet items	₩13,072,623	₩ 822	₩ 1,268	₩ -	₩ 131,210	₩75,500	₩13,281,423

(In millions of Korean won)	2015						
	USD	**JPY**	**EUR**	**GBP**	**CNY**	**Others**	**Total**
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
	₩17,592,168	₩ 978,518	₩ 792,153	₩ 39,637	₩ 288,690	₩ 465,406	₩ 20,156,572
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
	₩18,376,372	₩812,542	₩794,785	₩ 41,044	₩ 249,011	₩ 669,228	₩20,942,982
Off-balance sheet items	₩14,900,814	₩ 3,612	₩ 1,281	₩ -	₩ 3,190	₩ 81,206	₩14,990,103

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 timely feedback to management 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 Management

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%, a minimum Tier 1 ratio of 6.0% and a minimum Total Regulatory Capital of 8.0% as of December 31, 2016. Capital Conservation Buffer of 0.625% and Capital Requirement of Domestic Systemically Important Bank(D-SIB) of 0.25% are additionally applied. Therefore, the Group is required to maintain a capital ratio including a minimum capital ratio and additional capital requirements (a Common Equity Tier 1 Ratio of 5.375% (December 31, 2015 : 4.5%), a Tier 1 Ratio of 6.875% (December 31, 2015 : 6.0%), and a Total Regulatory Capital Ratio of 8.875% (December 31, 2015 : 8.0%)).

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. The Group complied with external capital adequacy requirements as of December 31, 2016 and 2015.

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 internal 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 internal capital is calculated by adding the stress testing results and other required items to the total internal capitals which are calculated for each risk.

The Risk Management Council of the Group determines the Group’s risk appetite and allocates internal capital by risk type and business group. Each business group efficiently operates its capital within range of granted internal capital. The Risk Management Department of the Group monitors a management of the limit on internal 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 internal capital is expected to exceed the limits.

Details of the Group's capital adequacy calculation in line with Basel III requirements as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Equity Capital	₩ 24,578,862	₩ 23,685,782
Tier I Capital	22,343,308	20,331,795
Common Equity Tier 1 Capital	22,343,308	20,331,795
Tier II Capital	2,235,554	3,353,987
Risk-weighted assets:	150,648,459	147,972,883
Credit risk[1]	136,469,707	133,389,054
Market risk[2]	3,883,542	4,189,408
Operational risk[3]	10,295,210	10,394,421
Equity Capital (%):	16.32	16.01
Tier I Capital (%)	14.83	13.74
Common Equity Tier 1 Capital (%)	14.83	13.74

[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.

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.

Financial information by business segment as of and for the year ended December 31, 2016 is as follows:

(In millions of Korean won)	2016				
	Corporate Banking	**Retail Banking**	**Others**	**Intra-group Adjustment**	**Total**
Operating revenues from external customers	₩1,797,670	₩2,248,035	₩1,666,904	₩ -	₩5,712,609
Segment operating revenues(expenses)	14,808	-	(13,081)	(1,727)	-
	1,812,478	2,248,035	1,653,823	(1,727)	5,712,609
Net interest income	2,286,347	2,353,232	189,372	(41)	4,828,910
Interest income	3,297,791	3,740,601	868,379	(12,615)	7,894,156
Interest expense	(1,011,444)	(1,387,369)	(679,007)	12,574	(3,065,246)
Net fee and commission income	231,182	504,259	367,974	(15,564)	1,087,851
Fee and commission income	293,336	583,048	453,079	(19,081)	1,310,382
Fee and commission expense	(62,154)	(78,789)	(85,105)	3,517	(222,531)
Net gains(losses) on financial assets/ liabilities at fair value through profit or loss	(1,166)	-	198,064	-	196,898
Net other operating income(expenses)	(703,885)	(609,456)	898,413	13,878	(401,050)
General and administrative expenses	(950,038)	(2,102,384)	(1,217,963)	1,436	(4,268,949)
Operating profit before provision for credit losses	862,440	145,651	435,860	(291)	1,443,660
Provision(reversal) for credit losses	(278,277)	(2,615)	32,925	(6,362)	(254,329)
Operating profit	584,163	143,036	468,785	(6,653)	1,189,331
Share of profit of associates	-	-	17,615	-	17,615
Net other non-operating income(expenses)	(1,300)	-	90,551	(39,940)	49,311
Segment profit before income tax expense	582,863	143,036	576,951	(46,593)	1,256,257
Income tax expense	(140,910)	(34,614)	(113,231)	(3,246)	(292,001)
Profit for the period	441,953	108,422	463,720	(49,839)	964,256
Profit attributable to shareholder of the parent company	441,953	108,422	463,720	(49,839)	964,256
Profit attributable to non-controlling interests	-	-	-	-	-
Total assets[1]	109,500,342	122,806,490	78,135,238	(3,375,700)	307,066,370
Total liabilities[1]	91,685,643	140,082,958	53,951,579	(1,978,812)	283,741,368

[1] Amounts before intra-group transaction adjustment.

Financial information by business segment as of and for the year ended December 31, 2016 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 shareholder 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.

5.2 Services and Geographical Segments

5.2.1 Services Information

Operating revenues from external customers by services for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Corporate banking service	₩ 1,797,670	₩ 1,720,023
Retail banking service	2,248,035	2,115,837
Other service	1,666,904	1,897,562
	₩ 5,712,609	₩ 5,733,422

5.2.2 Geographical Information

Geographical operating revenues from external customers for the years ended December 31, 2016 and 2015, and major non-current assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		2015	
	Revenues from external customers	Major non-current assets	Revenues from external customers	Major non-current assets
Domestic	₩ 5,621,130	₩ 3,691,841	₩ 5,657,170	₩ 3,493,248
United States	10,955	282	11,847	276
New Zealand	5,422	128	5,143	209
China	48,162	3,925	30,590	6,949
Japan	5,624	1,964	10,709	1,547
Vietnam	4,220	278	3,358	239
Cambodia	6,109	1,216	5,072	350
United Kingdom	10,987	149	9,533	130
Intra-group adjustment	-	1,202	-	1,202
	₩ 5,712,609	₩ 3,700,985	₩ 5,733,422	₩ 3,504,150

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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and due from financial institutions	₩ 14,681,846	₩ 14,682,043	₩ 14,562,990	₩ 14,562,700
Financial assets held for trading	7,826,697	7,826,697	6,417,419	6,417,419
Debt securities	7,693,118	7,693,118	6,287,469	6,287,469
Equity securities	61,230	61,230	60,890	60,890
Others	72,349	72,349	69,060	69,060
Financial assets designated at fair value through profit or loss	129,535	129,535	70,198	70,198
Derivative linked securities	129,535	129,535	70,198	70,198
Derivatives held for trading	2,745,979	2,745,979	2,093,458	2,093,458
Derivatives held for hedging	50,466	50,466	92,552	92,552
Loans	236,551,052	236,227,582	222,738,064	222,711,536
Available-for-sale financial assets	27,304,908	27,304,908	21,163,192	21,163,192
Debt securities	21,807,445	21,807,445	18,293,533	18,293,533
Equity securities	5,496,963	5,496,963	2,869,159	2,869,159
Others	500	500	500	500
Held-to-maturity financial assets	8,427,498	8,578,025	11,748,794	12,072,793
Other financial assets	5,021,200	5,021,200	6,887,727	6,887,727
	₩ 302,739,181	₩ 302,566,435	₩ 285,774,394	₩ 286,071,575
Financial liabilities				
Financial liabilities held for trading	₩ 73,238	₩ 73,238	₩ 69,465	₩ 69,465
Derivatives held for trading	2,769,718	2,769,718	2,116,766	2,116,766
Derivatives held for hedging	63,880	63,880	21,957	21,957
Deposits	235,736,034	236,297,685	224,333,507	225,012,816
Debts	15,934,409	15,937,153	14,291,815	14,321,296
Debentures	14,959,692	15,334,856	15,949,134	16,436,457
Other financial liabilities	12,097,059	12,097,068	9,612,261	9,612,273
	₩ 281,634,030	₩ 282,573,598	₩ 266,394,905	₩ 267,591,030

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.

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, the Monte Carlo Simulation and the Tree model or independent third-party valuation service. For OTC derivatives, the credit risk of counterparty and the Group's own credit risk are applied through Credit Valuation Adjustment(CVA).
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 (DCF Model) 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.

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.

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, 2016 and 2015, is as follows:

	2016			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading				
Debt securities	₩ 2,823,740	₩ 4,869,378	₩ -	₩ 7,693,118
Equity securities	34,131	27,099	-	61,230
Others	72,349	-	-	72,349
	2,930,220	4,896,477	-	7,826,697
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	129,535	129,535
	-	-	129,535	129,535
Derivatives held for trading	-	2,736,032	9,947	2,745,979
Derivatives held for hedging	-	49,003	1,463	50,466
Available-for-sale financial assets				
Debt securities	10,124,521	11,682,924	-	21,807,445
Equity securities[1]	1,001,541	2,649,967	1,845,455	5,496,963
Others	-	500	-	500
	11,126,062	14,333,391	1,845,455	27,304,908
	₩ 14,056,282	₩ 22,014,903	₩ 1,986,400	₩ 38,057,585
Financial liabilities				
Financial liabilities held for trading	₩ 73,238	₩ -	₩ -	₩ 73,238
Derivatives held for trading	-	2,769,596	122	2,769,718
Derivatives held for hedging	-	63,694	186	63,880
	₩ 73,238	₩ 2,833,290	₩ 308	₩ 2,906,836

	2015			
(In millions of Korean won)	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
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
	2,176,820	4,240,599	-	6,417,419
Financial assets designated at fair value through profit or loss				
Derivative linked securities	-	-	70,198	70,198
	-	-	70,198	70,198
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
	6,607,125	13,002,528	1,553,539	21,163,192
	₩ 8,783,945	₩19,427,329	₩ 1,625,545	₩ 29,836,819
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
	₩ 69,465	₩ 2,136,069	₩ 2,654	₩ 2,208,188

[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 ₩ 54,553 million and ₩ 24,571 million as of December 31, 2016 and 2015, 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 a company established to prepare for establishment of online bank, 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.

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, 2016 and 2015, are as follows:

(In millions of Korean won)	Fair value 2016	Fair value 2015	Valuation techniques	Inputs
Financial assets				
Financial assets held for trading				
Debt securities	₩ 4,869,378	₩ 4,212,293	DCF model	Discount rate
Equity securities	27,099	28,306	Net asset value method	Price of the underlying asset such as debenture, stock and others
	4,896,477	4,240,599		
Derivatives held for trading	2,736,032	2,092,861	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	49,003	91,341	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
Available-for-sale financial assets				
Debt securities	11,682,924	12,504,635	DCF model	Discount rate
Equity securities	2,649,967	497,393	Net asset value method	Price of the underlying asset such as debenture, stock and others
Others	500	500	DCF model	Discount rate
	14,333,391	13,002,528		
	₩ 22,014,903	₩ 19,427,329		
Financial liabilities				
Derivatives held for trading	₩ 2,769,596	₩ 2,114,609	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate, stock price and others
Derivatives held for hedging	63,694	21,460	DCF model, Closed Form, FDM	Discount rate, volatility, foreign exchange rate and others
	₩ 2,833,290	₩ 2,136,069		

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, 2016 and 2015, is as follows:

(In millions of Korean won)	2016			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and due from financial institutions[1]	₩ 2,555,151	₩ 11,391,432	₩ 735,460	₩ 14,682,043
Loans	-	-	236,227,582	236,227,582
Held-to-maturity financial assets	1,431,622	7,146,403	-	8,578,025
Other financial assets[2]	-	-	5,021,200	5,021,200
	3,986,773	₩ 18,537,835	₩ 241,984,242	₩ 264,508,850
Financial liabilities				
Deposits[1]	₩ -	₩112,717,627	₩ 123,580,058	₩ 236,297,685
Debts[1]	-	70,624	15,866,529	15,937,153
Debentures	-	15,334,856	-	15,334,856
Other financial liabilities[3]	-	-	12,097,068	12,097,068
	₩ -	₩128,123,107	₩ 151,543,655	₩ 279,666,762

(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
	₩ 4,246,451	₩ 20,702,990	₩ 231,285,315	₩ 256,234,756
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
	₩ -	₩116,807,799	₩ 148,575,043	₩ 265,382,842

[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, 2016 and 2015.

[3] The ₩12,095,445 million and ₩9,610,088 million of other financial liabilities included in Level 3 are the carrying amounts which are reasonable approximation of fair values as of December 31, 2016 and 2015, respectively.

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, 2016 and 2015, are as follows:

(In millions of Korean won)	Fair value		Valuation Techniques	Inputs
	2016	**2015**		
Financial assets				
Held-to-maturity financial assets	₩ 7,146,403	₩ 10,297,038	DCF model	Discount rate
Financial liabilities				
Debentures	15,334,856	16,436,457	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, 2016 and 2015, are as follows:

(In millions of Korean won)	Fair value		Valuation techniques	Inputs	Unobservable inputs
	2016	**2015**			
Financial assets					
Cash and due from financial institutions	₩ 735,460	₩ 1,686,052	DCF model	Credit spread, other spread, interest rate	Credit spread, other spread
Loans	236,227,582	222,711,536	DCF model	Credit spread, other spread, prepayment rate, interest rate	Credit spread, other spread, prepayment rate
	₩ 236,963,042	₩ 224,397,588			
Financial liabilities					
Deposits	₩ 123,580,058	₩ 124,651,358	DCF model	Other spread, prepayment rate, interest rate	Other spread, prepayment rate
Debts	15,866,529	14,311,412	DCF model	Other spread, interest rate	Other spread
Other financial liabilities	1,614	2,185	DCF model	Other spread, interest rate	Other spread
	₩ 139,448,201	₩ 138,964,955			

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 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 Inputs in Market

Changes in Level 3 of the fair value hierarchy for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
Beginning balance	₩ 70,198	₩ 1,553,539	₩ (1,560)	₩ 714
Total gains or losses				
- Profit or loss	9,603	17,086	(14,998)	676
- Other comprehensive-income(expenses)	-	47,080	-	-
Purchases	75,000	455,290	15,534	-
Sales	-	(209,616)	-	-
Settlements	(25,266)	-	2,034	(113)
Transfers into Level 3[1]	-	-	8,815	-
Transfers out of Level 3[1]	-	(17,924)	-	-
Ending balance	₩ 129,535	₩ 1,845,455	₩ 9,825	₩ 1,277

(In millions of Korean won)	2015			
	Financial assets at fair value through profit or loss	Financial investments	Net derivatives	
		Available-for-sale financial assets		
		Equity securities	Derivatives held for trading	Derivatives held for hedging
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)	-	-
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

[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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	
	Net losses on financial assets/liabilities at fair value through profit or loss	Other operating income
Total gains or losses included in profit or loss for the period	₩ (5,395)	₩ 17,762
Total gains or losses for the period included in profit or loss for financial instruments held at the end of the reporting period	3,076	(5,338)

(In millions of Korean won)	2015	
	Net losses on financial assets/liabilities 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)

6.2.3 Sensitivity Analysis of Changes in Unobservable Inputs

Information about fair value measurements using unobservable inputs as of December 31, 2016, is as follows:

(In millions of Korean won)

	Fair value	Valuation techniques	Inputs	Unobservable inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
Financial assets designated at fair value through profit or loss						
Derivative linked securities	₩ 129,535	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	17.65 ~ 29.86	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	24.77 ~ 73.07	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	2,433	Tree model	Price of the underlying asset, interest rate, volatility of the underlying asset, dividend yield	Volatility of the underlying asset	16.64 ~ 27.95	Higher the volatility, higher the fair value fluctuation
Currency and interest	807	DCF model	Interest rate, foreign exchange rate, loss given default	Loss given default	0.80 ~ 0.84	Higher the loss rate, lower the fair value
Others	6,707	MonteCarlo Simulation, Tree model	Stock price, interest rate, volatility of the stock price, volatility of the interest rate	Volatility of the stock price	14.82 ~ 30.97	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	1,463	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	5.04	Higher the volatility, higher the fair value fluctuation
Available-for-sale financial assets						
Equity securities	1,845,455	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, liquidation value , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 0.50	Higher the growth rate, higher the fair value
				Discount rate	1.49 ~ 18.49	Lower the discount rate, higher the fair value
				Liquidation value	0.00	Higher the liquidation value, higher the fair value
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,986,400					
Financial liabilities						
Derivatives held for trading						
Others	₩ 122	MonteCarlo Simulation	Stock price, interest rate, volatility of the stock price, volatility of the interest rate, discount rate	Volatility of the stock price	14.82	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.57	Higher the volatility, higher the fair value fluctuation
				Discount rate	2.09	Higher the discount rate, Lower the fair value
Derivatives held for hedging						

Interest	186	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	2.74	Higher the volatility, higher the fair value fluctuation
	₩ 308					

Information about fair value measurements using unobservable inputs as of December 31, 2015, is as follows:

	Fair value	Valuation techniques	Inputs	Unobservable Inputs	Range of unobservable inputs (%)	Relationship of unobservable inputs to fair value
Financial assets						
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	19.95 ~ 31.19	Higher the volatility, higher the fair value fluctuation
				Correlation of the underlying assets	26.37 ~ 53.50	Higher the correlation, higher the fair value fluctuation
Derivatives held for trading						
Stock and index	321	Tree 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, lower 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	40.02	Higher the volatility, higher the fair value fluctuation
				Volatility of the interest rate	0.45	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
Available-for-sale financial assets						
Equity securities	1,553,539	DCF Model, Comparable Company Analysis, Risk Adjusted Discount Rate Method	Growth rate, discount rate, liquidation value , recovery rate of receivables' acquisition cost	Growth rate	0.00 ~ 3.00	Higher the growth rate, higher the fair value
				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
				Recovery rate of receivables' acquisition cost	155.83	Higher the recovery rate of receivables' acquisition cost, higher the fair value
	₩ 1,625,545					
Financial liabilities						
Derivatives held for trading						
Stock and index	₩ 2,143	DCF model, Closed Form, FDM, Monte Carlo	Price of the underlying asset, interest rate, volatility of the underlying asset, correlation of the underlying	Volatility of the underlying asset	31.00 ~ 33.80	Higher the volatility, higher the fair value fluctuation
				Correlation of rates	11.96	Higher the correlation,

		Simulation	assets(Correlation of rates of return on stocks), dividend yield	of return on stocks		higher the fair value fluctuation
Others	14	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
				Volatility of the interest rate	0.45	Higher the volatility, higher the fair value fluctuation
Derivatives held for hedging						
Interest	497	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
	₩ 2,654					

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.

Sensitivity analysis by type of instrument as a result of varying input parameters are as follows:

	2016	
(In millions of Korean won)	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]	₩ 1,020	₩ (1,176)
Derivatives held for trading[2]	399	(308)
Derivatives held for hedging[2]	9	(6)
Available-for-sale financial assets[3]	-	-
	₩ 1,428	₩ (1,490)
Financial liabilities		
Derivatives held for trading[2]	₩ 111	₩ (138)
Derivatives held for hedging[2]	3	(3)
	₩ 114	₩ (141)

	2016	
(In millions of Korean won)	Other comprehensive income or loss	
	Favorable changes	Unfavorable changes
Financial assets		
Available-for-sale financial assets[3]	₩ 118,637	₩ (63,071)

	2015	
(In millions of Korean won)	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)

	2015	
(In millions of Korean won)	Other comprehensive income or loss	
	Favorable changes	Unfavorable changes
Financial assets		
Available-for-sale financial assets[3]	₩ 143,678	₩ (72,762)

[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 ± 10%.

[2] For derivatives, the changes in fair value are calculated by shifting principal unobservable input parameters such as the price of the underlying asset, the volatility of the stock price, and the volatility of interest rate by ± 10% or the loss given default ratio by ± 1%.

[3] For equity securities, the changes in fair value are calculated by shifting principal unobservable input parameters such as discount rate, liquidation value, recovery rate of receivables' acquisition cost (-1~1%) and growth rate (0~0.5%). There were no significant inter-relationships between unobservable inputs that materially affect fair values.

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.

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:

(In millions of Korean won)	**2016**	**2015**
Balance at the beginning of the period (A)	₩ 9	₩ 187
New transactions (B)	(3,869)	-
Amounts recognized in profit or loss during the period (C= a+b)	366	(178)
a. Amortization	549	(20)
b. Settlement	(183)	(158)
Balance at the end of the period (A+B+C)	₩ (3,494)	₩ 9

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, 2016, are as follows:

(In millions of Korean won)

	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	₩ -	₩ -	₩ 14,681,846	₩ -	₩ -	₩ -	₩14,681,846
Financial assets at fair value through profit or loss	7,826,697	129,535	-	-	-	-	7,956,232
Derivatives	2,745,979	-	-	-	-	50,466	2,796,445
Loans	-	-	236,551,052	-	-	-	236,551,052
Financial investments	-	-	-	27,304,908	8,427,498	-	35,732,406
Other financial assets	-	-	5,021,200	-	-	-	5,021,200
	₩10,572,676	₩ 129,535	₩ 256,254,098	₩27,304,908	₩8,427,498	₩ 50,466	₩302,739,181

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss			
	Held for trading	**Financial liability at amortized cost**	**Derivatives held for hedging**	**Total**
Financial liabilities				
Financial liabilities at fair value through profit or loss	₩ 73,238	₩ -	₩ -	₩ 73,238
Derivatives	2,769,718	-	63,880	2,833,598
Deposits	-	235,736,034	-	235,736,034
Debts	-	15,934,409	-	15,934,409
Debentures	-	14,959,692	-	14,959,692
Other financial liabilities	-	12,097,059	-	12,097,059
	₩ 2,842,956	₩ 278,727,194	₩ 63,880	₩ 281,634,030

The carrying amounts of financial assets and liabilities by category as of December 31, 2015, are as follows:

(In millions of Korean won)

	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
	₩ 8,510,877	₩ 70,198	₩244,188,781	₩21,163,192	₩11,748,794	₩ 92,552	₩285,774,394

(In millions of Korean won)

	Financial liabilities at fair value through profit or loss			
	Held for trading	**Financial liability at amortized cost**	**Derivatives held for hedging**	**Total**
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

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, 2016 and 2015, are as follows :

(In millions of Korean won)			2016	
	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**
EAK ABS Ltd.	Subordinated debt	Available-for-sale financial assets	₩ 7	₩ 7
AP 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	1,393	1,393
Discovery 1st Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	6,876	6,876
EAK 2nd Securitization Specialty Co., Ltd.	Subordinated debt	Available-for-sale financial assets	12,302	12,302
FK 1411 ABS Ltd.	Subordinated debt	Available-for-sale financial assets	15,212	15,212
AP 3B ABS Ltd.	Subordinated debt	Available-for-sale financial assets	14,374	14,374
AP 4D ABS Ltd.[1]	Senior debt	Loans and receivables	13,626	13,689
	Subordinated debt	Available-for-sale financial assets	14,450	14,450
			₩ 78,240	₩ 78,303

[1] Recognized net gain from transferring loans to the SPEs amounts to ₩ 6,705 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 ₩ 4,406 million as of December 31, 2016.

(In millions of Korean won)		2015		
	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**
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
			₩ 123,873	₩ 123,925

[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, 2016.

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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**
Securities under repurchase agreements	₩ 1,376,782	₩ 1,261,371
Loaned securities	108,062	-
Government and public bonds	108,062	-
	₩ 1,484,844	₩ 1,261,371

(In millions of Korean won)	2015	
	Carrying amount of transferred assets	**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

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. Account receivables and account payables related to listed securities and derivatives or OTC derivatives settled by the central counterparty are included in the other financial instruments. As the Group has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, the net amounts of the other financial instruments balances are presented in the statement of financial position.

Details of financial assets subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016					
				Related amounts not offset in the statement of financial position		
	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	Financial instruments	Cash collateral	Net amount
Derivatives held for trading	₩ 2,736,840	₩ -	₩ 2,736,840	₩ (1,622,583)	₩ (2,711)	₩ 1,111,546
Derivatives held for hedging	50,466	-	50,466	(10,615)	-	39,851
Receivable spot exchange	2,557,327	-	2,557,327	(2,555,485)	-	1,842
Reverse repurchase	2,892,400	-	2,892,400	(2,892,400)	-	-
Domestic exchange settlement debits	19,854,611	(19,323,418)	531,193	-	-	531,193
Other financial instruments	904	(897)	7	-	-	7
	₩28,092,548	₩ (19,324,315)	₩8,768,233	₩ (7,081,083)	₩ (2,711)	₩ 1,684,439

(In millions of Korean won)	2015					
				Related amounts not offset in the statement of financial position		
	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	Financial instruments	Cash collateral	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	2,028,200	-	2,028,200	(2,028,200)	-	-
Domestic exchange settlement debits	20,124,480	(17,986,079)	2,138,401	-	-	2,138,401
Other financial instruments	1,282	(1,262)	20	-	-	20
	₩27,181,584	₩(17,987,341)	₩ 9,194,243	₩(6,479,168)	₩ (22,220)	₩ 2,692,855

Details of financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016					
	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	₩ 2,769,306	₩ -	₩ 2,769,306	₩ (1,803,390)	₩ (207,797)	₩ 758,119
Derivatives held for hedging	63,880	-	63,880	(22,758)	(11,922)	29,200
Payable spot exchange	2,555,913	-	2,555,913	(2,555,485)	-	428
Repurchase[1]	1,261,371	-	1,261,371	(1,261,371)	-	-
Domestic exchange settlement credits	20,655,921	(19,323,418)	1,332,503	(1,332,503)	-	-
Other financial instruments	928	(897)	31	(31)	-	-
	₩ 27,307,319	₩ (19,324,315)	₩ 7,983,004	₩ (6,975,538)	₩ (219,719)	₩ 787,747

(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[1]	568,486	-	568,486	(568,486)	-	-
Domestic exchange settlement credits	18,104,678	(17,986,079)	118,599	(118,599)	-	-
Other financial instruments	1,314	(1,262)	52	(52)	-	-
	₩ 23,655,328	₩ (17,987,341)	₩ 5,667,987	₩ (5,160,293)	₩ (4,633)	₩ 503,061

[1] Includes repurchase agreements sold to customers.

7. Due from Financial Institutions

Details of due from Financial Institutions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Financial Institutions	Interest rate(%)	2016	2015
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	0.00 ~ 1.27	₩ 7,259,264	₩ 6,376,961
	Due from banking institutions	KEB Hana Bank and others	0.00 ~ 2.60	3,750	705,670
	Due from others	KB Securities Co., Ltd. and others	0.00 ~ 2.07	2,104,822	2,819,387
				9,367,836	9,902,018
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	0.00	2,025,373	1,211,342
	Time deposits in foreign currencies	Bank of Communications, Seoul and others	0.14~5.30	699,488	941,986
	Due from others	Bank of Japan and others	0.00	33,998	36,948
				2,758,859	2,190,276
				₩ 12,126,695	₩ 12,092,294

Restricted due from financial institutions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		Financial Institutions	2016	2015	Reason for restriction
Due from financial institutions in Korean won	Due from Bank of Korea	Bank of Korea	₩ 7,259,264	₩ 6,376,961	Bank of Korea Act
	Due from others	KB Securities Co., Ltd. and others	678	5,119	Derivatives margin account
			7,259,942	6,382,080	
Due from financial institutions in foreign currencies	Due from banks in foreign currencies	Bank of Korea and others	564,099	501,379	Bank of Korea Act and others
	Time deposits in foreign currencies	Sumitomo Mitsui New York and others	24,170	17,580	New York State Banking Law
	Due from others	Samsung Futures Inc. and others	11,490	4,868	Derivatives margin account
			599,759	523,827	
			₩ 7,859,701	₩ 6,905,907	

8. Assets Pledged as Collateral

Details of assets pledged as collateral as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		2016	
Assets pledged	**Pledgee**	**Carrying amount**	**Reason for the pledge**
Financial assets held for trading	Korea Securities Depository and others	₩ 87,718	Repurchase agreements
	KB Securities Co., Ltd. and others	3,020	Derivatives transaction
		90,738	
Available-for-sale financial assets	Korea Securities Depository and others	1,288,571	Repurchase agreements
	Bank of Korea	490,297	Borrowings from Bank of Korea
	Bank of Korea	493,896	Settlement risk of Bank of Korea
	KEB Hana Bank and others	960,868	Derivatives transactions
	Others	19,957	Others
		3,253,589	
Held-to-maturity financial assets	Korea Securities Depository and others	35,035	Repurchase agreements
	Bank of Korea	1,251,011	Borrowings from Bank of Korea
	Bank of Korea	1,178,800	Settlement risk of Bank of Korea
	KB Securities Co., Ltd. and others	209,022	Derivatives transactions
	Others	261,850	Others
		2,935,718	
Mortgage loans	Others	2,252,315	Covered Bond
Building/ Land	Samsung Life Insurance Co., Ltd. and others	332,148	Others
		₩ 8,864,508	

(In millions of Korean won)

Assets pledged	Pledgee	2015 Carrying amount		2015 Reason for the pledge
Financial assets held for trading	Korea Securities Depository and others	₩	53,680	Repurchase agreements
	KB Securities Co., Ltd. and others		1,021	Derivatives transactions
			54,701	
Available-for-sale financial assets	Korea Securities Depository and others		481,937	Repurchase agreements
	Bank of Korea		594,020	Borrowings from Bank of Korea
	Bank of Korea		61,410	Settlement risk of Bank of Korea
	Deutsche Bank AG. and others		412,475	Derivatives transactions
	Others		5,604	Others
			1,555,446	
Held-to-maturity financial assets	Korea Securities Depository and others		101,942	Repurchase agreements
	Bank of Korea		820,872	Borrowings from Bank of Korea
	Bank of Korea		922,733	Settlement risk of Bank of Korea
	Samsung Futures Inc. and others		200,625	Derivatives transactions
	Others		174,984	Others
			2,221,156	
Mortgage loans	Others		1,745,823	Covered Bond
		₩	5,577,126	

The fair value of collateral available to sell or repledge regardless of debtor's default as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)

	2016 Fair value of collateral		2016 Fair value of collateral sold or repledged	
Securities	₩	2,955,306	₩	-

(In millions of Korean won)

	2015 Fair value of collateral		2015 Fair value of collateral sold or repledged	
Securities	₩	2,045,575	₩	-

9. Derivative Financial Instruments and Hedge Accounting

The Group 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 particular, the Group applies fair value hedge accounting using 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, structured deposits in foreign currencies, and debt securities in foreign currencies. Also, the Group applies cash flow hedge accounting using interest rate swaps to hedge cash flow risk of floating rate notes in Korean won. 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.

Details of derivative financial instruments for trading as of December 31, 2016 and 2015, are as follows:

	2016		
(In millions of Korean won)	**Notional amount**	**Assets**	**Liabilities**
Interest rate			
Futures[1]	₩ 1,030,888	₩ -	₩ -
Swaps	86,741,333	638,420	552,695
Options	5,202,000	38,216	150,753
	92,974,221	676,636	703,448
Currency			
Forwards	56,486,111	1,302,620	1,152,025
Futures[1]	299,913	-	-
Swaps	28,107,538	752,636	909,277
Options	487,313	4,947	4,557
	85,380,875	2,060,203	2,065,859
Stock and index			
Futures[1]	-	-	-
Options	58,770	2,433	288
	58,770	2,433	288
Others	942,416	6,707	123
	₩ 179,356,282	₩ 2,745,979	₩ 2,769,718

	2015		
(In millions of Korean won)	**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
	97,460,829	982,748	1,023,027
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
	59,927,508	1,110,377	1,091,315
Stock and index			
Futures[1]	26,588	-	-
Options	40,571	321	2,410
	67,159	321	2,410
Others	703,200	12	14
	₩ 158,158,696	₩ 2,093,458	₩ 2,116,766

[1] A gain or loss from daily mark-to-market futures is reflected in the margin accounts.

Fair value hedge

The fair value of derivative financial instruments designated as hedging instruments as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 3,130,646	₩ 48,424	₩ 63,634
Other	140,000	1,464	186
	₩ 3,270,646	₩ 49,888	₩ 63,820

(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
	₩ 3,248,538	₩ 92,552	₩ 21,957

Gains and losses from fair value hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Gains(losses) on hedging instruments	₩ (81,290)	₩ (39,381)
Gains(losses) on the hedged item attributable to the hedged risk	81,884	40,002
	₩ 594	₩ 621

Cash flow hedge

The fair value of derivative financial instruments designated as hedging instruments as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	**2016**		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ 680,000	₩ 578	₩ 60

(In millions of Korean won)	**2015**		
	Notional amount	**Assets**	**Liabilities**
Interest rate			
Swaps	₩ -	₩ -	₩ -

Gains and losses from cash flow hedging instruments and hedged items attributable to the hedged risk for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Gains(losses) on hedging instruments	₩ 503	₩ -
Effective gain(loss) from cash flow hedging instruments	445	-
Ineffective gain(loss) from cash flow hedging instruments	58	-

Amounts recognized in other comprehensive income and reclassified from equity to profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Other comprehensive income or loss	₩ 445	₩ -
Reclassification to profit or loss	-	-
Income tax effect	(108)	-
	₩ 337	₩ -

As of December 31, 2016, the hedged items subject to cash flow hedge are exposed to the risk of changes in cash flows until July 13, 2017.

Hedges of a net investment in a foreign operation

Effective portion of gains(losses) on hedging instruments recognized in other comprehensive income(loss) for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**		**2015**	
Other comprehensive income(loss)	₩	(8,992)	₩	(33,610)
Income tax effect		2,176		8,134
Other comprehensive income(loss) after tax	₩	(6,816)	₩	(25,476)

There is no ineffective portion of gain (loss) related to hedge on net investments in foreign operations for the year ended December 31, 2016.

Fair value of non-derivative financial instruments designated as hedging instruments is as follows:

(In millions of Korean won)	**2016**		**2015**	
Debentures in foreign currencies	₩	199,478	₩	582,205

10. Loans

Loans as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**		**2015**	
Loans	₩	237,576,213	₩	224,189,374
Deferred loan origination fees and costs		570,450		574,569
Allowances		(1,595,611)		(2,025,879)
Carrying amount	₩	236,551,052	₩	222,738,064

Loans to banks as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**		**2015**	
Loans	₩	5,542,989	₩	6,779,962
Allowances		(66)		(39)
Carrying amount	₩	5,542,923	₩	6,779,923

Loans to customers other than banks as of December 31, 2016 and 2015, consist of:

(In millions of Korean won)	2016		
	Retail	**Corporate**	**Total**
Loans in Korean won	₩ 123,804,999	₩ 97,471,594	₩ 221,276,593
Loans in foreign currencies	72,329	2,685,932	2,758,261
Domestic import usance bills	-	2,962,676	2,962,676
Off-shore funding loans	-	559,915	559,915
Call loans	-	262,331	262,331
Bills bought in Korean won	-	5,568	5,568
Bills bought in foreign currencies	-	2,834,172	2,834,172
Guarantee payments under payment guarantee	-	11,327	11,327
Reverse repurchase agreements	-	1,239,500	1,239,500
Privately placed bonds	-	693,331	693,331
	123,877,328	108,726,346	232,603,674
Proportion (%)	53.26	46.74	100.00
Allowances	(333,269)	(1,262,276)	(1,595,545)
	₩ 123,544,059	₩ 107,464,070	₩ 231,008,129

(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
	115,966,585	102,017,396	217,983,981
Proportion (%)	53.20	46.80	100.00
Allowances	(432,414)	(1,593,426)	(2,025,840)
	₩ 115,534,171	₩ 100,423,970	₩ 215,958,141

Changes in deferred loan origination fees and costs for the years ended December 31, 2016 and 2015, are as follows:

	2016				
(In millions of Korean won)	**Beginning**	**Increase**	**Decrease**	**Other**	**Ending**
Deferred loan origination costs					
Loans in Korean won	₩ 594,518	₩ 297,671	₩ (309,710)	₩ -	₩ 582,479
Other origination costs	470	230	(405)	-	295
	594,988	297,901	(310,115)	-	582,774
Deferred loan origination fees					
Loans in Korean won	15,972	3,056	(9,060)	-	9,968
Other origination fees	4,447	902	(2,995)	2	2,356
	20,419	3,958	(12,055)	2	12,324
	₩ 574,569	₩ 293,943	₩ (298,060)	₩ (2)	₩ 570,450

	2015				
(In millions of Korean won)	**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
	572,706	422,887	(400,605)	-	594,988
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
	27,209	5,020	(11,819)	9	20,419
	₩ 545,497	₩ 417,867	₩ (388,786)	₩ (9)	₩ 574,569

11. Allowances for Loan Losses

Changes in the allowances for loan losses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Retail	Corporate	Total
Beginning	₩ 432,414	₩ 1,593,465	₩ 2,025,879
Written-off	(252,642)	(725,346)	(977,988)
Recoveries from written-off loans	152,384	198,972	351,356
Sale	(3,924)	(37,535)	(41,459)
Other changes	(4,877)	(45,883)	(50,760)
Provision[1]	9,914	278,669	288,583
Ending	₩ 333,269	₩ 1,262,342	₩ 1,595,611

(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	₩ 432,414	₩ 1,593,465	₩ 2,025,879

[1] Provision for credit losses(gains) in statements of comprehensive income also includes 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).

12. Financial Assets at Fair Value Through Profit or Loss and Financial Investments

Details of financial assets at fair value through profit or loss and financial investments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		2016		2015
Financial assets held for trading				
Debt securities				
Government and public bonds	₩	2,149,866	₩	1,301,425
Financial bonds		3,658,448		3,133,610
Corporate bonds		1,445,591		1,438,302
Asset-backed securities		222,076		218,496
Others		217,137		195,636
Equity securities				
Stocks		34,131		31,397
Beneficiary certificates		27,099		29,493
Others		72,349		69,060
		7,826,697		6,417,419
Financial assets designated at fair value through profit or loss				
Derivative linked securities		129,535		70,198
Total financial assets at fair value through profit or loss	₩	7,956,232	₩	6,487,617
Available-for-sale financial assets				
Debt securities				
Government and public bonds	₩	6,590,766	₩	3,202,350
Financial bonds		8,370,202		6,376,869
Corporate bonds		4,116,728		3,533,586
Asset-backed securities		2,729,749		5,180,728
Equity securities				
Stocks		1,776,142		1,440,483
Equity investments		148,400		41,314
Beneficiary certificates		3,572,421		1,387,362
Others		500		500
		27,304,908		21,163,192
Held-to-maturity financial assets				
Debt securities				
Government and public bonds		1,534,324		1,870,481
Financial bonds		1,528,268		2,024,444
Corporate bonds		1,782,391		3,709,968
Asset-backed securities		3,582,515		4,143,901
		8,427,498		11,748,794
Total financial investments	₩	35,732,406	₩	32,911,986

The impairment losses and the reversal of impairment losses in financial investment for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (22,225)	₩ -	₩ (22,225)

(In millions of Korean won)

	2015		
	Impairment	**Reversal**	**Net**
Available-for-sale financial assets	₩ (216,027)	₩ -	₩ (216,027)

13. Investments in Associates

Investments in associates as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016					
	Ownership (%)	**Acquisition cost**	**Share of net asset amount**	**Carrying amount**	**Industry**	**Location**
Balhae Infrastructure Fund[1]	12.61	₩ 130,189	₩ 133,200	₩ 133,200	Investment finance	Korea
Korea Credit Bureau Co., Ltd.[1]	9.00	4,500	4,853	4,853	Credit information	Korea
JSC Bank CenterCredit Ordinary shares[2, 5] / Preferred shares[2, 5]	29.56 / 93.15	954,104	(32,191)	-	Banking	Kazakhstan
KB12-1 Venture Investment Partnership[3]	80.00	27,200	38,797	38,797	Investment finance	Korea
KoFC KBIC Frontier Champ 2010-5(PEF)	30.00	14,391	15,063	14,696	Investment finance	Korea
KB GwS Private Securities Investment Trust	20.93	89,124	104,204	102,948	Investment finance	Korea
Incheon Bridge Co., Ltd.[1]	14.99	24,677	728	728	Operation of highways and related facilities	Korea
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	20.00	18,160	19,831	19,831	Investment finance	Korea
Future Planning KB Start-up Creation Fund[3]	50.00	10,700	15,202	15,202	Investment finance	Korea
Shinla Construction Co., Ltd.[4]	20.17	-	(543)	-	Specialty construction	Korea
Terra Corporation[4]	24.06	-	44	28	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp.[4]	22.89	-	(542)	232	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd.[4]	42.65	-	(420)	-	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd[4]	26.49	-	(51)	-	Manufacture of metal door, windows, shutter and relevant products	Korea

Shinhwa Underwear Co., Ltd[4]	26.05	-	(137)	103	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd.[4]	38.62	-	151	-	Wholesale of paper	Korea
EJADE Co.,Ltd.[4]	25.67	-	(520)	-	Wholesale of underwear	Korea
Jaeyang Industry Co.,Ltd.[4]	20.86	-	(522)	-	Manufacture of pouches, cases, and bags	Korea
Kendae Co.,Ltd.[4]	41.01	-	(351)	-	Screen Printing	Korea
KB High-tech Company Investment Fund[3]	50.00	15,000	15,140	15,140	Investment finance	Korea
Aju Good Technology Venture Fund	38.46	1,998	1,949	1,998	Investment finance	Korea
KB Star office private real estate Investment Trust No.1	21.05	20,000	20,220	20,220	Investment finance	Korea
		₩ 1,310,043	₩ 334,105	₩ 367,976		

(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.[4]	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 HANWHA KB Shared Growth No.2. 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[4]	24.06	-	37	21	Manufacture of fabricated and processed metal products	Korea
MJT&I Corp.[4]	22.89	-	(580)	149	Wholesale of other merchandise	Korea
Jungdong Steel Co., Ltd.[4]	42.65	-	86	33	Wholesale of primary metal	Korea
Doosung Metal Co., Ltd[4]	26.49	-	(47)	-	Manufacture of metal door, windows, shutter and relevant products	Korea

Myeongwon Tech Co., Ltd.[4]	25.62	-	(447)	-	Manufacture of other automotive parts	Korea
Shinhwa Underwear Co., Ltd[4]	26.05	-	(184)	56	Manufacture of underwear and sleepwear	Korea
DPAPS Co.,Ltd.[4]	38.62	-	339	-	Wholesale of paper	Korea
EJADE Co.,Ltd.[4]	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
		₩ 1,568,249	₩ 645,880	₩ 670,139		

[1] As of December 31, 2016 and 2015, 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, 2016 and 2015, amounts to ₩ 29,358 million and ₩ 21,863 million, respectively.

[3] As of December 31, 2016 and 2015, the Group is a partner in a limited partnership and does not have the right to control over these entities.

[4] The investment in associates was reclassified from available-for-sale financial assets due to termination of rehabilitation procedures.

[5] On February 10, 2017, the Group entered into a share purchase agreement with Tsesnabank consortium in Kazakhstan to sell the entire shares (48,023,250 ordinary shares and 36,561,465 convertible preferred shares) of JSC Bank CenterCredit held by the Group.

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)	2016[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	₩ 1,059,008	₩ 2,288	₩1,061,216	₩1,056,720	₩ 133,200	₩ -	₩ 133,200
Korea Credit Bureau Co., Ltd.	71,245	17,322	10,000	53,923	4,853	-	4,853
JSC Bank CenterCredit	4,510,673	4,578,854	546,794	(68,181)	(32,191)	32,191	-
KB12-1 Venture Investment Partnership	49,545	1,048	34,000	48,497	38,797	-	38,797
KoFC KBIC Frontier Champ 2010-5(PEF)	50,213	2	47,970	50,211	15,063	(367)	14,696
KB GwS Private Securities Investment Trust	498,606	741	425,814	497,865	104,204	(1,256)	102,948
Incheon Bridge Co., Ltd.	660,858	656,000	164,621	4,858	728	-	728
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	100,252	1,094	90,800	99,158	19,831	-	19,831
Future Planning KB Start-up Creation Fund	31,944	1,541	21,400	30,403	15,202	-	15,202
KB High-tech Company Investment Fund	30,535	256	30,000	30,279	15,140	-	15,140
Aju Good Technology Venture Fund	5,249	181	5,200	5,068	1,949	49	1,998
KB Star office private real estate Investment Trust No.1	216,988	120,943	95,000	96,045	20,220	-	20,220

(In millions of Korean won)	2016[1]				
	Operating revenues	**Profit (Loss)**	**Other comprehensive income(loss)**	**Comprehensive income(loss)**	**Dividends**
Balhae Infrastructure Fund	₩ 55,541	₩ 46,428	₩ -	₩ 46,428	₩ 5,653
Korea Credit Bureau Co., Ltd.	59,868	3,517	-	3,517	135
JSC Bank CenterCredit	157,996	(13,912)	(15,374)	(29,286)	-
KB12-1 Venture Investment Partnership	9,410	3,539	(2,379)	1,160	-
KoFC KBIC Frontier Champ 2010-5(PEF)	3,045	2,001	2,390	4,391	-
KB GwS Private Securities Investment Trust	36,502	35,513	-	35,513	5,756
Incheon Bridge Co., Ltd.	98,341	17,449	-	17,449	-
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	22,411	15,002	872	15,874	-
Future Planning KB Start-up Creation Fund	10,378	9,165	222	9,387	-
KB High-tech Company Investment Fund	1,437	176	103	279	-
Aju Good Technology Venture Fund	50	(128)	-	(128)	-
KB Star office private real estate Investment Trust No.1	16,314	7,460	-	7,460	1,679

[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.

(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 HANWHA KB Shared Growth No.2. 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

(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 HANWHA KB Shared Growth No.2. Private Equity Fund	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.

Changes in investments in associates for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehen-sive income (loss)**	**Ending**
Balhae Infrastructure Fund	₩ 128,275	₩ 4,727	₩ -	₩ (5,654)	₩ 5,852	₩ -	₩ 133,200
Korea Credit Bureau Co., Ltd.	4,580	-	-	(135)	408	-	4,853
UAMCO., Ltd.	129,707	-	(101,740)	(26,961)	(1,006)	-	-
JSC Bank CenterCredit	-	-	-	(1)	1	-	-
KB12-1 Venture Investment Partnership	50,670	-	(12,800)	-	2,831	(1,904)	38,797
KoFC KBIC Frontier Champ 2010-5(PEF)	15,169	-	(1,740)	-	550	717	14,696
United PF 1st Recovery Private Equity Fund	183,117	-	(190,863)	-	7,746	-	-
KB GwS Private Securities Investment Trust	101,274	-	-	(5,756)	7,430	-	102,948
Incheon Bridge Co., Ltd.	-	-	-	-	728	-	728
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	24,760	3,000	(9,600)	-	952	719	19,831
Future Planning KB Start-up Creation Fund	12,000	4,000	(5,300)	-	4,391	111	15,202
Terra Corporation	21	-	-	-	7	-	28
MJT&I Corp.	149	-	-	-	83	-	232
Jungdong Steel Co., Ltd.	33	-	-	-	(33)	-	-
Shinhwa Underwear Co., Ltd.	56	-	-	-	47	-	103
KB High-tech Company Investment Fund	-	15,000	-	-	88	52	15,140
Aju Good Technology Venture Fund	-	2,000	(2)	-	-	-	1,998
KB Star office private real estate Investment Trust No.1	20,328	-	-	(1,679)	1,571	-	20,220
	₩ 670,139	₩ 28,727	₩ (322,045)	₩ (40,186)	₩ 31,646	₩ (305)	₩ 367,976

(In millions of Korean won)	2015						
	Beginning	**Acquisition and others**	**Disposal and others**	**Dividends**	**Gains (losses) from using equity method**	**Other comprehen-sive 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 HANWHA KB Shared Growth No.2. 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
	₩ 667,332	₩ 27,999	₩ (24,078)	₩ (12,092)	₩ 7,664	₩ 3,314	₩ 670,139

Accumulated unrecognized share of losses in investments in associates due to discontinuation of applying the equity method of accounting for the years ended December 31, 2016 and 2015, are as follows:

	2016		2015	
	Unrecognized loss	Accumulated unrecognized loss	Unrecognized loss	Accumulated unrecognized loss
Incheon Bridge Co., Ltd.	₩ (1,879)	₩ -	₩ 163	₩ 1,879
Shinla Construction Co., Ltd.	27	175	14	148
Doosung Metal Co., Ltd	5	54	49	49
Myeongwon Tech Co., Ltd	(43)	-	43	43
Jungdong Steel Co., Ltd	474	474	-	-
DPAPS Co.,Ltd.	188	188	-	-
EJADE Co.,Ltd.	1,112	1,112	-	-
JSC Bank CenterCredit	5,308	108,761	103,453	103,453

14. Property and Equipment, and Investment Properties

Details of property and equipment as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 2,060,974	₩ -	₩ (1,018)	₩ 2,059,956
Buildings	1,235,214	(403,397)	(5,859)	825,958
Leasehold improvements	653,804	(590,148)	-	63,656
Equipment and vehicles	1,195,582	(1,039,735)	-	155,847
Construction in-progress	4,013	-	-	4,013
Finance lease assets	22,391	(14,430)	-	7,961
	₩ 5,171,978	₩(2,047,710)	₩ (6,877)	₩ 3,117,391

(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
	₩ 5,098,374	₩ (2,182,125)	₩ (6,877)	₩ 2,909,372

Changes in property and equipment for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Beginning	Acquisition	Transfers[1]	Disposal	Depreciation	Others	Ending
Land	₩ 1,882,298	₩ 98,311	₩ 79,454	₩ (127)	₩ -	₩ 20	₩2,059,956
Buildings	815,972	1,187	38,295	(545)	(29,015)	64	825,958
Leasehold improvements	48,365	1,239	49,375	(691)	(45,259)	10,627	63,656
Equipment and vehicles	149,711	103,793	-	(181)	(97,443)	(33)	155,847
Construction in-progress	443	144,588	(141,020)	-	-	2	4,013
Finance lease assets	12,583	606	-	-	(5,228)	-	7,961
	₩ 2,909,372	₩ 349,724	₩ 26,104	₩ (1,544)	₩ (176,945)	₩ 10,680	₩3,117,391

(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
	₩ 2,888,194	₩ 176,150	₩ 888	₩ (2,257)	₩ (156,954)	₩ 3,351	₩ 2,909,372

[1] Including transfers from investment properties and assets held for sale.

Changes in accumulated impairment losses of property and equipment for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

2016				
Beginning	Impairment	Reversal	Others	Ending
₩ (6,877)	₩ -	₩ -	₩ -	₩ (6,877)

(In millions of Korean won)

2015				
Beginning	Impairment	Reversal	Others	Ending
₩ (2,117)	₩ (557)	₩ -	₩ (4,203)	₩ (6,877)

Details of investment properties as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 230,254	₩ -	₩ 230,254
Buildings	160,793	(18,167)	142,626
	₩ 391,047	₩ (18,167)	₩ 372,880

(In millions of Korean won)	2015		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 255,806	₩ -	₩ 255,806
Buildings	173,131	(15,758)	157,373
	₩ 428,937	₩ (15,758)	₩ 413,179

The valuation technique and input variables that are used to measure the fair value of investment property as of December 31, 2016, are as follows:

(In millions of Korean won)	2016		
	Fair Value	**Valuation technique**	**Inputs**
Land and Buildings	₩ 86,428	Cost approach value	- Price per square meter - Replacement cost
	312,580	Income approach	- Discount rate - Capitalization rate - Vacancy rate

As of December 31, 2016 and 2015, fair values of the investment properties amount to ₩ 399,008 million and ₩ 447,627 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, 2016 and 2015, amounts to ₩ 21,492 million and ₩ 22,252 million, respectively.

Changes in investment properties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016				
	Beginning	**Acquisitions**	**Transfers**	**Depreciation**	**Ending**
Land	₩ 255,806	₩ -	₩ (25,552)	₩ -	₩ 230,254
Buildings	157,373	1,254	(12,515)	(3,486)	142,626
	₩ 413,179	₩ 1,254	₩ (38,067)	₩ (3,486)	₩ 372,880

(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
	₩ 409,266	₩ 4,290	₩ 3,292	₩ (3,669)	₩ 413,179

15. Intangible Assets

Details of intangible assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Goodwill	₩ 66,490	₩ -	₩ -	₩ 66,490
Other intangible assets	828,618	(680,215)	(4,179)	144,224
	₩ 895,108	₩ (680,215)	₩ (4,179)	₩ 210,714

(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
	₩ 830,419	₩ (641,350)	₩ (7,470)	₩ 181,599

Details of goodwill as of December 31, 2016 and 2015, are as follows:

	2016		2015	
(In millions of Korean won)	**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
	₩ 66,490	₩ 66,490	₩ 66,490	₩ 66,490

There is no change in goodwill for the years ended December 31, 2016 and 2015.

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			
	Retail Banking	**Corporate Banking**	**KB Cambodia Bank**	**Total**
Carrying amounts	₩ 49,315	₩ 15,973	₩ 1,202	₩ 66,490
Recoverable amount exceeded carrying amount	11,517,237	2,726,509	63	14,243,809
Discount rate (%)	12.70	12.91	28.64	
Permanent growth rate (%)	1.00	1.00	1.00	

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 1.0% annually for Retail Banking, Corporate Banking and KB Cambodia Bank. 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.

Details of intangible assets, excluding goodwill, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost	**Accumulated amortization**	**Accumulated impairment losses**	**Carrying amount**
Industrial property rights	₩ 1,417	₩ (1,281)	₩ -	₩ 136
Software	675,830	(592,069)	-	83,761
Other intangible assets	126,058	(77,881)	(4,179)	43,998
Finance leases assets	25,313	(8,984)	-	16,329
	₩ 828,618	₩ (680,215)	₩ (4,179)	₩ 144,224

(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
	₩ 763,929	₩ (641,350)	₩ (7,470)	₩ 115,109

Changes in intangible assets, excluding goodwill, for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016					
	Beginning	**Acquisition**	**Disposal**	**Amortization**	**Others**	**Ending**
Industrial property rights	₩ 215	₩ 47	₩ -	₩ (126)	₩ -	₩ 136
Software	44,984	65,386	-	(26,611)	2	83,761
Other intangible assets	49,910	8,537	(3,810)	(8,387)	(2,252)	43,998
Finance leases assets	20,000	708	-	(4,379)	-	16,329
	₩ 115,109	₩ 74,678	₩ (3,810)	₩ (39,503)	₩ (2,250)	₩ 144,224

(In millions of Korean won)

	2016					
	Beginning	**Acquisition**	**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
	₩ 140,405	₩ 26,850	₩ (3,384)	₩ (43,844)	₩ (4,918)	₩ 115,109

Changes in accumulated impairment losses on intangible assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**				
	Beginning	**Impairment**	**Reversal**	**Others**	**Ending**
Accumulated impairment losses on other intangible assets	₩ (7,470)	₩ (2,250)	₩ 15	₩ 5,526	₩ (4,179)

(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)

Changes in emission rights for the year ended December 31, 2016, 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	116,799	₩ -	112,137	₩ -	109,140	₩ -	338,076	₩ -
Cancel	(4,056)	-	(4,336)	-	(4,220)	-	(12,612)	-
Borrowing	8,518	-	(8,518)	-	-	-	-	-
Surrendered to government	(121,261)	-	-	-	-	-	(121,261)	-
Ending	-	₩ -	99,283	₩ -	104,920	₩ -	204,203	₩ -

16. Deferred Income Tax Assets and Liabilities

Details of deferred income tax assets and liabilities as of December 31, 2016 and 2015, are as follows:

	2016		
(In millions of Korean won)	**Assets**	**Liabilities**	**Net amount**
Other provisions	₩ 70,507	₩ -	₩ 70,507
Impairment losses on property and equipment	5,037	-	5,037
Interest on equity index-linked deposits	41	-	41
Share-based payments	10,408	-	10,408
Provisions for guarantees	30,569	-	30,569
Gains on valuation of derivatives	-	(10,235)	(10,235)
Present value discount	-	(22)	(22)
Losses on fair value hedged item	-	(14,335)	(14,335)
Accrued interest	-	(43,842)	(43,842)
Deferred loan origination fees and costs	-	(120,310)	(120,310)
Gains on revaluation	-	(270,890)	(270,890)
Investments in subsidiaries and associates	6,672	(89,282)	(82,610)
Gains on valuation of security investment	68,455	-	68,455
Defined benefit liabilities	300,059	-	300,059
Accrued expenses	232,207	-	232,207
Retirement insurance expense	-	(270,808)	(270,808)
Adjustments to the prepaid contributions	-	(15,142)	(15,142)
Others	179,048	(20,464)	158,584
	903,003	(855,330)	47,673
Offsetting of deferred income tax assets and liabilities	(855,311)	855,311	-
Total	₩ 47,692	₩ (19)	₩ 47,673

(In millions of Korean won)	2015 Assets	2015 Liabilities	2015 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)
Gains on valuation of security investment	68,962	-	68,962
Defined benefit liabilities	270,752	-	270,752
Accrued expenses	46,035	-	46,035
Retirement insurance expense	-	(235,539)	(235,539)
Adjustments to the prepaid contributions	-	(21,938)	(21,938)
Others	154,379	(18,764)	135,615
	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)

Unrecognized deferred income tax liabilities

No deferred income tax liabilities have been recognized for the taxable temporary difference of ₩ 17,205 million associated with investments in subsidiaries and associates as of December 31, 2016, 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, 2016.

Unrecognized deferred income tax assets

No deferred income tax assets have been recognized for the deductible temporary difference of ₩ 788,196 million associated with investments in subsidiaries and associates as of December 31, 2016, 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 ₩ 80,204 million and ₩ 21,797 million associated with loss on SPE repurchase and others, respectively, as of December 31, 2016, due to the uncertainty that these will be realized in the future.

Changes in cumulative temporary differences for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Beginning	**Decrease**	**Increase**	**Ending**
Deductible temporary differences				
Losses from fair value hedge	₩ 11,882	₩ 11,882	₩ -	₩ -
Other provisions	283,672	283,672	291,350	291,350
Impairment losses on property and equipment	20,738	20,738	20,812	20,812
Interest on equity index-linked deposits	287	287	168	168
Share-based payments	33,754	33,754	43,008	43,008
Provisions for guarantees	157,954	157,954	126,319	126,319
Loss on SPE repurchase	80,204	-	-	80,204
Investment in subsidiaries and associates	811,394	728	4,019	814,685
Gains on valuation of security investment	284,965	284,965	282,872	282,872
Defined benefit liabilities	1,118,809	48,247	169,352	1,239,914
Accrued expenses	190,228	190,228	959,532	959,532
Others	659,343	82,615	182,878	759,606
	3,653,230	₩1,115,070	₩2,080,310	4,618,470
Unrecognized deferred income tax assets				
Other provisions	67			-
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	788,196			788,196
Others	21,393			21,797
	2,763,370			3,728,273
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 668,732			₩ 903,002

(In millions of Korean won)	2016			
	Beginning	**Decrease**	**Increase**	**Ending**
Taxable temporary differences				
Losses from fair value hedge	₩ -	₩ -	₩ (59,235)	₩ (59,235)
Accrued interest	(179,394)	(128,026)	(129,797)	(181,165)
Deferred loan origination fees and costs	(497,418)	(497,418)	(497,149)	(497,149)
Gains on valuation of derivatives	(125,582)	(125,582)	(42,294)	(42,294)
Present value discount	(104)	(104)	(92)	(92)
Goodwill from merger	(65,288)	-	-	(65,288)
Gains on revaluation	(1,126,842)	(7,463)	-	(1,119,379)
Investment in subsidiaries and associates	(407,434)	(67,101)	(46,935)	(387,268)
Retirement insurance expense	(973,303)	(48,247)	(193,985)	(1,119,041)
Adjustments to the prepaid contributions	(90,653)	(90,653)	(62,569)	(62,569)
Others	(77,537)	(21,271)	(28,311)	(84,577)
	(3,543,555)	₩ (985,865)	₩ (1,060,367)	(3,618,057)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(65,873)			(17,205)
	(3,412,394)			(3,535,564)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from taxable temporary differences	₩ (825,684)			₩ (855,330)

(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	793,034	10,019	29,279	811,394
Gains on valuation of security investment	257,478	257,478	284,965	284,965
Defined benefit liabilities	1,006,115	91,406	204,100	1,118,809
Accrued expenses	144,968	144,968	190,228	190,228
Others	932,910	387,128	113,561	659,343
	3,799,137	₩ 1,476,327	₩ 1,330,420	3,653,230
Unrecognized deferred income tax assets				
Other provisions	199			67
Loss on SPE repurchase	80,204			80,204
Investment in subsidiaries and associates	774,722			788,196
Others	18,185			21,393
	2,925,827			2,763,370
Tax rate (%)	24.20			24.20
Total deferred income tax assets from deductible temporary differences	₩ 709,919			₩ 668,732

(In millions of Korean won)	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)
Retirement insurance expense	(887,946)	(91,406)	(176,763)	(973,303)
Adjustments to the prepaid contributions	(114,108)	(114,108)	(90,653)	(90,653)
Others	(77,792)	(15,509)	(15,254)	(77,537)
	(3,464,537)	₩ (1,046,813)	₩ (1,125,831)	(3,543,555)
Unrecognized deferred income tax liabilities				
Goodwill from merger	(65,288)			(65,288)
Investments in subsidiaries and associates	(39,024)			(65,873)
	(3,360,225)			(3,412,394)
Tax rate (%)	24.20			24.20
Total deferred income tax liabilities from taxable temporary differences	₩ (814,963)			₩ (825,684)

17. Other Assets

Details of other assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Other financial assets		
Other receivables	₩ 2,660,373	₩ 3,165,861
Accrued income	760,933	692,744
Guarantee deposits	1,120,685	1,160,950
Domestic exchange settlement debits	531,193	2,138,401
Others	9,584	17,743
Allowances for loan losses	(60,062)	(286,915)
Present value discount	(1,506)	(1,057)
	5,021,200	6,887,727
Other non-financial assets		
Other receivables	39	42,356
Prepaid expenses	112,993	141,758
Guarantee deposits	3,284	3,656
Others	79,061	104,141
Allowances on other assets	(23,305)	(23,128)
	172,072	268,783
	₩ 5,193,272	₩ 7,156,510

Changes in allowances for loan losses on other assets for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Other financial assets	Other non-financial assets	Total
Beginning	₩ 286,915	₩ 23,128	₩ 310,043
Provision	1,943	717	2,660
Written-off	(269,949)	(540)	(270,489)
Others	41,153	-	41,153
Ending	₩ 60,062	₩ 23,305	₩ 83,367

(In millions of Korean won)	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	₩ 286,915	₩ 23,128	₩ 310,043

18. Assets Held for Sale

Details of assets held for sale as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016			
	Acquisition cost[1]	Accumulated impairment losses	Carrying amount	Fair value less costs to sell
Land	₩ 27,787	₩ (8,177)	₩ 19,610	₩ 21,182
Buildings	12,675	(5,758)	6,917	7,201
	₩ 40,462	₩ (13,935)	₩ 26,527	₩ 28,383

(In millions of Korean won)	2015			
	Acquisition cost[1]	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
	₩ 47,656	₩ (13,861)	₩ 33,795	₩ 35,447

[1] Acquisition cost of buildings held for sale is net of accumulated depreciation before classified as assets held for sale.

The valuation technique and input variables that are used to measure the fair value of assets held for sale as of December 31, 2016, are as follows:

(In millions of Korean won)	2016				
	Fair value	Valuation technique[1]	Unobservable inputs[2]	Range of unobservable inputs (%)	Effect of unobservable inputs on fair value
Land and buildings	₩ 28,700	Market comparison approach model and others	Adjustment index	0.27 ~ 1.05	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

[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.

Changes in accumulated impairment losses of assets held for sale for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

2016				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (13,861)	₩ (5,268)	₩ 96	₩ 5,098	₩ (13,935)

(In millions of Korean won)

2015				
Beginning	**Provision**	**Reversal**	**Others**	**Ending**
₩ (20,246)	₩ (2,110)	₩ 399	₩ 8,096	₩ (13,861)

As of December 31, 2016, 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 by December 31, 2016. As of the report date, four out of the above assets held for sale are under a sale negotiation and the remaining 6 assets are also being actively marketed.

19. Deposits

Details of deposits as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Demand deposits		
Demand deposits in Korean won	₩ 103,123,086	₩ 91,959,685
Demand deposits in foreign currencies	5,009,480	4,122,010
	108,132,566	96,081,695
Time deposits		
Time deposits in Korean won	120,469,784	120,035,078
Fair value adjustments on fair value hedged time deposits in Korean won	-	(201)
	120,469,784	120,034,877
Time deposits in foreign currencies	4,314,783	3,623,160
Fair value adjustments on fair value hedged time deposits in foreign currencies	(61,656)	(17,672)
	4,253,127	3,605,488
	124,722,911	123,640,365
Certificates of deposits	2,880,557	4,611,447
Total deposits	₩ 235,736,034	₩ 224,333,507

20. Debts

Details of debts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Borrowings	₩ 11,952,068	₩ 11,684,566
Bonds sold under repurchase agreements and others	1,271,908	596,343
Call money	2,710,433	2,010,906
	₩ 15,934,409	₩ 14,291,815

Details of borrowings as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		Lenders	Annual interest rate (%)	2016	2015
Borrowings in Korean won	Borrowings from the Bank of Korea	Bank of Korea	0.50 ~ 0.75	₩ 1,644,260	₩ 1,421,375
	Borrowings from the government	KEMCO and others	0.00 ~ 3.00	1,331,688	1,156,670
	Borrowings from banking institutions	Industrial Bank of Korea	-	-	180
	Borrowings from non-banking financial institutions	Korea Development Bank	0.20 ~ 2.70	320,755	284,369
	Other borrowings	Korea Gas Safety Corporation and others	0.00 ~ 7.50	2,636,273	2,830,933
				5,932,976	5,693,527
Borrowings in foreign currencies	Due to banks	JP Morgan Chase Bank and others	-	70,624	9,884
	Borrowings from banking institutions	MIZUHO bank and others	0.00 ~ 3.18	3,949,377	3,530,561
	Borrowings from other financial institutions	Export Import Bank of Korea and others	1.35 ~ 2.25	121,104	212,507
	Other borrowings	Standard Chartered Bank and others	-	1,877,987	2,238,087
				6,019,092	5,991,039
				₩ 11,952,068	₩ 11,684,566

Details of bonds sold under repurchase agreements and others as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2016	2015
Bonds sold under repurchase agreements	Individuals, groups, corporations	0.00 ~ 1.21	₩ 1,261,371	₩ 568,486
Bills sold	Counter sale	0.40 ~ 1.00	10,537	27,857
			₩ 1,271,908	₩ 596,343

Details of call money as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	Lenders	Annual interest rate (%)	2016	2015
Call money in Korean won	Korea Development Bank and others	1.08 ~ 1.23	₩ 1,525,500	₩ 926,400
Call money in foreign currencies	Central Bank of Uzbekistan and others	0.08 ~ 3.30	1,184,933	1,084,506
			₩ 2,710,433	₩ 2,010,906

21. Debentures

Details of debentures as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**Annual interest rate (%)**	**2016**	**2015**
Debentures in Korean won			
Structured debentures	0.29 ~ 6.70	₩ 337,500	₩ 909,788
Subordinated fixed rate debentures in Korean won	3.08 ~ 5.12	3,196,993	4,471,829
Fixed rate debentures in Korean won	1.29 ~ 4.09	7,259,095	6,750,523
Floating rate debentures in Korean won	1.36 ~ 1.37	680,000	-
		11,473,588	12,132,140
Fair value adjustments on fair value hedged debentures in Korean won		26,724	40,170
Discount on debentures in Korean won		(9,560)	(6,412)
		11,490,752	12,165,898
Debentures in foreign currencies			
Floating rate debentures	1.44~1.76	700,930	1,477,524
Fixed rate debentures	1.38~3.63	2,803,721	2,325,537
		3,504,651	3,803,061
Fair value adjustments on fair value hedged debentures in foreign currencies		(24,303)	(10,415)
Discount on debentures in foreign currencies		(11,408)	(9,410)
		3,468,940	3,783,236
		₩ 14,959,692	₩ 15,949,134

Changes in debentures based on face value for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016				
	Beginning	**Issues**	**Repayments**	**Others**	**Ending**
Debentures in Korean won					
Structured debentures	₩ 909,788	₩ -	₩ (572,288)	₩ -	₩ 337,500
Subordinated fixed rate debentures	4,471,829	-	(1,274,836)	-	3,196,993
Fixed rate debentures	6,750,523	3,359,000	(2,850,428)	-	7,259,095
Floating rate debentures	-	680,000	-	-	680,000
	12,132,140	4,039,000	(4,697,552)	-	11,473,588
Debentures in foreign currencies					
Floating rate debentures	1,477,524	35,595	(806,459)	(5,730)	700,930
Fixed rate debentures	2,325,537	1,185,480	(817,096)	109,800	2,803,721
	3,803,061	1,221,075	(1,623,555)	104,070	3,504,651
	₩15,935,201	₩5,260,075	₩ (6,321,107)	₩ 104,070	₩14,978,239

(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)	-	-
	12,345,915	4,200,000	(4,413,775)	-	12,132,140
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
	2,897,395	1,193,524	(490,516)	202,658	3,803,061
	₩15,243,310	₩5,393,524	₩ (4,904,291)	₩202,658	₩15,935,201

22. Provisions

Details of provisions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Provisions for unused loan commitments	₩ 124,991	₩ 126,282
Provisions for acceptances and guarantees	126,428	158,454
Provisions for asset retirement obligation	77,810	70,493
Others	96,055	95,169
	₩ 425,284	₩ 450,398

Changes in provisions for unused loan commitments, acceptances and guarantees for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Provisions for unused loan commitments	Provisions for acceptances and guarantees	Total
Beginning	₩ 126,282	₩ 158,454	₩ 284,736
Effects of changes in foreign exchange rate	203	738	941
Provision(Reversal)	(1,494)	(32,764)	(34,258)
Ending	₩ 124,991	₩ 126,428	₩ 251,419

(In millions of Korean won)	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	₩ 126,282	₩ 158,454	₩ 284,736

Changes in provisions for asset retirement obligation for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Beginning	₩ 70,493	₩ 68,999
Provision	3,693	1,941
Reversal	(250)	(363)
Used	(4,788)	(2,779)
Unwinding of discount	1,631	1,941
Effects of changes in discount rate	7,031	754
Ending	₩ 77,810	₩ 70,493

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.

Changes in other provisions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities**[1]	**Others**	**Total**
Beginning	₩ 99	₩ 41,091	₩ 11,570	₩ 3,809	₩ 69	₩ 38,531	₩ 95,169
Provision (Reversal)	180	32,464	(1,456)	(1,939)	434	3,036	32,719
Used and Others	(164)	(23,159)	(1,577)	-	(145)	(6,788)	(31,833)
Ending	₩ 115	₩ 50,396	₩ 8,537	₩ 1,870	₩ 358	₩ 34,779	₩ 96,055

[1] As of December 31, 2016, the estimated greenhouse gas emission is 117,831 tons.

(In millions of Korean won)

	2015						
	Membership rewards program	**Dormant accounts**	**Litigations**	**Financial guarantee liabilities**	**Greenhouse Gas Emission liabilities**[1]	**Others**	**Total**
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	₩ 99	₩ 41,091	₩ 11,570	₩ 3,809	₩ 69	₩ 38,531	₩ 95,169

[1] As of December 31, 2016, the estimated greenhouse gas emission is 122,542 tons.

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.

Changes in the net defined benefit liabilities for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liabilities**
Beginning	₩ 1,260,675	₩ (1,205,006)	₩ 55,669
Current service cost	159,268	-	159,268
Interest expense(income)	31,105	(29,723)	1,382
Remeasurements :			
-Actuarial gain arising from changes in demographic assumptions	2,164	-	2,164
-Actuarial gain arising from changes in financial assumptions	(26,509)	-	(26,509)
-Actuarial loss arising from experience adjustment	4,000	-	4,000
-Return on plan assets (excluding amounts included in interest income)	-	9,655	9,655
Contributions	-	(130,000)	(130,000)
Payments from plans (benefit payments)	(45,733)	45,733	-
Payments from the Group	(4,496)	-	(4,496)
Transfer in	2,252	(2,236)	16
Transfer out	(2,508)	2,508	-
Effects of changes in foreign exchange rate	18	-	18
Ending	₩ 1,380,236	₩ (1,309,069)	₩ 71,167

(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 expense (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	₩ 1,260,675	₩ (1,205,006)	₩ 55,669

Details of the net defined benefit liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Present value of defined benefit obligation	₩ 1,380,236	₩ 1,260,675
Fair value of plan assets	(1,309,069)	(1,205,006)
Net defined benefit liabilities	₩ 71,167	₩ 55,669

Details of post-employment benefits recognized in profit or loss as employee compensation and benefits for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Current service cost	₩ 159,268	₩ 162,459
Interest expenses of net defined benefit liabilities	1,382	1,714
Total	₩ 160,650	₩ 164,173

Remeasurements of net defined benefit liabilities recognized as other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Remeasurements:		
-Actuarial gain(loss) arising from changes in demographic assumptions	₩ (2,164)	₩ 1,879
-Actuarial loss arising from changes in financial assumptions	26,509	508
-Actuarial gain arising from experience adjustment	(4,000)	(10,631)
-Return on plan assets (excluding amounts included in interest income)	(9,655)	(10,877)
Income tax effects	(2,587)	4,627
Remeasurements after income tax	₩ 8,103	₩ (14,494)

Details of fair value of plan assets as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**		
	Assets quoted in an active market	**Assets not quoted in an active market**	**Total**
Time deposits	₩ -	₩ 1,309,069	₩ 1,309,069

(In millions of Korean won)	**2015**		
	Assets quoted in an active market	**Assets not quoted in an active market**	**Total**
Time deposits	₩ -	₩ 1,205,006	₩ 1,205,006

Key actuarial assumptions used as of December 31, 2016 and 2015, are as follows:

	Ratio (%)	
	2016	**2015**
Discount rate	2.50	2.50
Salary increase rate	3.75	4.00
Turnover	1.00	1.00

Mortality assumptions are based on the 8th experience-based mortality table of Korea Insurance Development Institute of 2015.

The sensitivity of the defined benefit obligation to changes in the principal assumptions as of December 31, 2016, is as follows:

		Effect on defined benefit obligation	
	Changes in principal assumption	**Increase in principal assumption**	**Decrease in principal assumption**
Discount rate	0.5% p	3.92% decrease	4.19% increase
Salary increase rate	0.5% p	3.85% increase	3.63% decrease
Turnover	0.5% p	0.31% decrease	0.33% 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, 2016, is as follows:

(In millions of Korean won)	**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	₩ 184,946	₩ 113,342	₩ 371,420	₩ 759,236	₩ 2,244,327	₩ 3,673,271

The weighted average duration of the defined benefit obligations is 8.31 years.

Expected contributions to plan assets for the period after December 31, 2016, are estimated to be approximately ₩ 140,000 million.

24. Other Liabilities

Details of other liabilities as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Other financial liabilities		
Other payables	₩ 2,782,247	₩ 3,016,175
Prepaid card and debit cards	1,929	2,107
Accrued expenses	2,380,057	2,538,380
Financial guarantee liabilities	22,377	12,355
Deposits for letter of guarantees and others	189,286	211,388
Domestic exchange settlement credits	1,332,503	118,599
Foreign exchanges settlement credits	116,226	53,367
Borrowings from other business accounts	5,204	47,707
Payables to trust accounts	4,430,508	2,791,404
Liabilities incurred from agency relationship	386,670	488,325
Account for agency businesses	248,253	321,557
Others	201,799	10,897
	12,097,059	9,612,261
Other non-financial liabilities		
Other payables	1,193,758	68,449
Unearned revenue	35,733	39,815
Accrued expenses	191,338	176,643
Withholding taxes	103,849	108,225
Others	80,833	64,198
	1,605,511	457,330
	₩ 13,702,570	₩ 10,069,591

25. Equity

25.1 Capital Stock

Details of outstanding shares of the Bank as of December 31, 2016 and 2015, are as follows:

	Ordinary shares	
	2016	**2015**
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.

25.2 Capital Surplus

Details of capital surplus as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
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
	₩ 5,219,704	₩ 5,219,704

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

Details of accumulated other comprehensive income as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Remeasurements of net defined benefit liabilities	₩ (94,079)	₩ (102,182)
Currency translation differences	27,509	32,993
Gains on valuation of available-for-sale financial assets	680,965	682,818
Losses on valuation of equity method investments	(87,577)	(87,346)
Gains on cash flow hedging instruments	337	-
Losses on hedges of a net investment in a foreign operations	(32,292)	(25,476)
	₩ 494,863	₩ 500,807

25.4 Retained Earnings

Retained earnings as of December 31, 2016 and 2015, consist of:

(In millions of Korean won)	2016	2015
Legal reserves	₩ 2,033,471	₩ 2,033,463
Regulatory reserve for credit losses	1,835,115	1,867,761
Voluntary reserves	10,596,846	9,893,452
Retained earnings before appropriation	1,123,107	1,210,128
	₩ 15,588,539	₩ 15,004,804

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.

Details of the regulatory reserve for credit losses as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Beginning	₩ 1,835,115	₩ 1,867,761
Amounts estimated to be appropriated(reversed)	165,948	(32,646)
Ending	₩ 2,001,063	₩ 1,835,115

Adjustments to the regulatory reserve for credit losses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Provision (reversal) of regulatory reserve for credit losses	₩ 165,948	₩ (32,646)
Adjusted profit after provision of regulatory reserve for credit losses[1]	798,308	1,139,884

[1] Adjusted profit after provision of regulatory reserve for credit losses is not accordance with Korean IFRS and calculated on the assumption that provision of regulatory reserve for credit losses before income tax is adjusted to the profit.

26. Interest Income and Expense

Details of interest income, expense, and net interest income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Interest income		
Due from financial institutions	₩ 71,659	₩ 112,024
Loans	7,038,659	7,380,610
Financial investments		
Available-for-sale financial assets	313,850	386,427
Held-to-maturity financial assets	365,548	392,658
Others	104,440	116,663
	7,894,156	8,388,382
Interest expense		
Deposits	2,455,044	3,030,091
Debts	166,488	167,785
Debentures	396,508	418,979
Others	47,206	59,780
	3,065,246	3,676,635
Net interest income	₩ 4,828,910	₩ 4,711,747

Interest income recognized on impaired loans is ₩ 41,990 million (December 31, 2015: ₩ 51,218 million) for the year ended December 31, 2016.

27. Net Fee and Commission Income

Details of fee and commission income, and fee and commission expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Fee and commission income		
Banking activity fees	₩ 182,412	₩ 173,442
Lending activity fees	78,780	87,202
Agent activity fees	387,055	406,123
Trust and other fiduciary fees	182,405	241,246
Guarantee fees	30,538	29,924
Credit card related fees	1,293	1,420
Foreign currency related fees	97,394	97,148
Security activity commissions	157,218	160,211
Other business account commission on consignment	33,707	30,525
Debit card related fees and commissions	634	680
Others	158,946	144,133
	1,310,382	1,372,054
Fee and commission expense		
Trading activity related fees[1]	11,884	10,531
Lending activity fees	23,694	21,225
Credit card related fees	1,925	1,096
Contributions to external institutions	21,988	22,318
Outsourcing related fees	59,914	62,475
Foreign currency related fees	15,694	12,286
Management fees of written-off loans	11,925	12,667
Others	75,507	73,083
	222,531	215,681
Net fee and commission income	₩ 1,087,851	₩ 1,156,373

[1] Fees from financial assets/liabilities at fair value through profit or loss.

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 instruments held for trading 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.

Details for the years ended December 31, 2016 and 2015, are as follows:,

(In millions of Korean won)	**2016**	**2015**
Gains from financial instruments held for trading		
Financial assets held for trading		
Debt securities	₩ 203,083	₩ 224,641
Equity securities	5,818	11,487
	208,901	236,128
Derivatives held for trading		
Interest rate	972,660	976,180
Currency	3,719,392	2,287,541
Stock or stock index	456	13,727
Other	859	803
	4,693,367	3,278,251
Financial liabilities held for trading	528	-
Other financial instruments	239	2,166
	4,903,035	3,516,545
Losses from financial instruments held for trading		
Financial assets held for trading		
Debt securities	69,187	34,713
Equity securities	2,819	9,237
	72,006	43,950
Derivatives held for trading		
Interest rate	924,404	988,989
Currency	3,708,355	2,178,142
Stock or stock index	7,620	12,877
Other	772	241
	4,641,151	3,180,249
Financial liabilities held for trading	2,410	-
Other financial instruments	174	2,213
	4,715,741	3,226,412
Net gain or loss from financial instruments held for trading	₩ 187,294	₩ 290,133

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. Details for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2015**	**2015**
Gains from financial assets designated at fair value through profit or loss		
Derivative linked securities	₩ 9,604	₩ 1,697
Losses from financial assets designated at fair value through profit or loss		
Derivative linked securities	-	4,802
Net gains or losses from financial assets designated at fair value through profit or loss	₩ 9,604	₩ (3,105)

29. Other operating income and expenses

Details of other operating income and expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Other operating income		
Revenue related to available-for-sale financial assets		
Gains on redemption of available-for-sale financial assets	₩ 226	₩ 313
Gains on sale of available-for-sale financial assets	169,482	397,757
	169,708	398,070
Gains on foreign exchange transactions	3,328,516	2,422,525
Dividend income	85,339	84,538
Others	165,738	183,365
	3,749,301	3,088,498
Other operating expenses		
Expense related to available-for-sale financial assets		
Losses on sale of available-for-sale financial assets	27,966	2,142
Impairment losses on available-for-sale financial assets	22,225	216,027
	50,191	218,169
Losses on foreign exchange transactions	3,211,954	2,399,321
Others	888,206	892,734
	4,150,351	3,510,224
Net other operating expenses	₩ (401,050)	₩ (421,726)

30. General and Administrative Expenses

30.1 General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Employee Benefits		
Salaries and short-term employee benefits - salaries	₩ 1,469,499	₩ 1,442,575
Salaries and short-term employee benefits - welfare expense	659,522	696,210
Post-employment benefits - defined benefit plans	160,650	164,173
Post-employment benefits - defined contribution plans	3,729	5,085
Termination benefits	862,539	390,245
Share-based payments	19,347	11,915
	3,175,286	2,710,203
Depreciation and amortization	219,934	204,467
Other general and administrative expenses		
Rental expense	240,021	237,800
Tax and dues	81,669	97,721
Communication	22,990	24,046
Electricity and utilities	23,006	23,858
Publication	12,653	13,816
Repairs and maintenance	11,875	12,085
Vehicle	7,224	7,833
Travel	3,833	3,581
Training	16,998	18,402
Service fees	89,243	87,704
Others	364,217	370,305
	873,729	897,151
	₩ 4,268,949	₩ 3,811,821

30.2 Share-based Payments

30.2.1 Share Options

There are no share options outstanding for the year ended December 31, 2016. The changes in the number of granted share options and the weighted average exercise price for the year ended December 31, 2015, were as follows:

(In Korean won, except shares)

	2015					
	Number of granted shares			Number of exercisable shares	Exercise price per share	Remaining contractual life(Years)
Share options	Beginning	Expired	Ending			
Series 22	657,498	657,498	-	-	₩ -	-
Series 23	15,246	15,246	-	-	-	-
	672,744	672,744	-	-		
Weighted average exercise price	₩ 77,268	₩ 77,268	₩ -	₩ -		

There was no intrinsic value of the vested share options as of December 31, 2015

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.

Details of the share grants as of December 31, 2016, are as follows:

(In number of shares)

Share grants	Grant date	Number of granted shares[1]	Vesting conditions
Series 60	2015.01.01	277,205	Service period : 2 years [2,3]
Series 61	2015.04.14	8,390	Service period : 2 years [2,3]
Series 62	2015.01.12	16,505	Service period : 2 years [2,3]
Series 64	2015.07.24	21,153	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]
Series 67	2016.01.01	164,063	Service period : 2 years [2,5]
Series 68	2016.07.05	9,621	Service period : 2 years [2,5]
Deferred grant in 2013	-	22,335	
Deferred grant in 2014	-	70,766	
Deferred grant in 2015	-	88,848	
		721,106	

[1] Granted shares in relation to Series 60 ~ 62 and 64 ~ 68 represent the total number of shares granted to directors and employees but not vested at the end of reporting period. The number of deferred grants represents residual shares that have been vested at the end of reporting period.

[2] Options are given to the executives and employees during the year for deferred payment schedule(after the retirement date), payment proportion and payment period. Due to these given options, the deferred payment period might be a maximum of five years after the retirement date.

[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 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] The 35%, 35% and 30% of the number of shares to be granted are determined upon the accomplishment of the targeted EPS, the targeted relative TSR and the targeted asset quality, respectively.

[5] In general, 40%, 30% and 30% of the number of shares to be granted are determined upon the accomplishment of performance results, relative TSR and evaluation by the Bank's CEO, respectively. However, as for certain number of shares, half of the 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.

Details of share grants linked to short-term performance as of December 31, 2016, are as follows:

Share grants[1]	Grant date	Number of vested shares	Vesting conditions
Granted shares for 2013	2013.01.01	33,999	Vested
Granted shares for 2014	2014.01.01	107,427	Vested
Granted shares for 2015	2015.01.01	140,999	Vested
Granted shares for 2016	2016.01.01	133,598	Proportion to service period

[1] Options are given to the executives and employees during the year for deferred payment schedule(after the retirement date), payment proportion and payment period. Due to these given options, the deferred payment period might be a maximum of five years after the retirement date.

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, 2016, 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 60	0.00~7.00	1.57	42,868	41,367 ~ 42,824
Series 61	0.00~3.00	1.57	42,169	42,295 ~ 42,824
Series 62	0.00~3.00	1.57	42,868	42,295 ~ 42,824
Series 64	0.00~5.00	1.57	42,288	41,673 ~ 42,824
Series 65	0.65~4.00	1.57	42,144	42,003 ~ 42,680
Series 66	0.89~3.89	1.57	48,889	41,916 ~ 42,670
Series 67	0.00~6.00	1.57	44,134	41,471 ~ 42,824
Series 68	1.51~5.00	1.58	43,273	41,673 ~ 42,380
Grant deferred in 2013	-	1.57	-	42,824
Grant deferred in 2014	0.00~1.00	1.57	-	42,680 ~ 42,824
Grant deferred in 2015	0.00~4.00	1.57	-	42,003 ~ 42,824
Linked to short-term performance				
Share granted in 2013	-	1.57	-	32,810~42,824
Share granted in 2014	0.00~1.02	1.57	-	37,829~42,872
Share granted in 2015	0.00~6.00	1.57	-	41,471~42,824
Share granted in 2016	1.00~7.00	1.57	-	41,367~42,680

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, 2016, 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, 2016 and 2015, the accrued expenses related to share-based payments, including share grants, amounted to ₩ 41,474 million and ₩ 33,754 million, respectively, and the compensation costs from share grants amounting to ₩ 19,347 million and ₩ 11,915 million were incurred during the year ended December 31, 2016 and 2015, respectively.

30.2.3 Mileage Stock

Details of Mileage Stock as of December 31, 2016, are as follows:

(In number of shares)	**Grant date**	**Number of granted shares[1]**	**Expected exercise period (Years) [1]**	**Number of exercisable shares[2]**
Share granted in 2016	2016.01.23	33,836	0.00~2.06	33,025
	2016.04.29	66	0.00~2.33	66
	2016.07.07	280	0.00~2.52	280
	2016.07.18	767	0.00~2.55	767
	2016.08.03	120	0.00~2.59	120
	2016.08.17	66	0.00~2.63	66
	2016.08.30	256	0.00~2.66	256
	2016.09.06	373	0.00~2.68	373
	2016.10.07	105	0.00~2.77	105
	2016.11.01	118	0.00~2.84	118
	2016.12.07	44	0.00~2.93	44
	2016.12.08	23	0.00~2.94	23
	2016.12.15	12	0.00~2.96	12
	2016.12.20	309	0.00~2.97	309
	2016.12.28	45	0.00~2.99	45
	2016.12.30	210	0.00~3.00	210
		36,630		35,819

[1] Mileage stock is exercisable for two years after one year from the grant date. When the mileage stock is exercised, the closing price of prior month is applied. However, in case of transfer or retirement during the vesting period, mileage stock is exercisable at the closing price of the last month prior to transfer or retirement.

[2] The exercisable shares are assessed based on the stock price as of December 31, 2016. These shares are vested immediately at grant date.

The accrued expenses for share-based payments in regard to mileage stock as of December 31, 2016, are ₩ 1,533 million. The compensation costs amounting to ₩ 1,563 million were recognized as an expense for the year ended December 31, 2016.

31. Non-operating Income and Expenses

Details of non-operating income and expenses for years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Non-operating income		
Gains of disposal in property and equipment and assets held for sale	₩ 1,342	₩ 1,017
Rent received	28,303	28,560
Others	80,927	258,716
	110,572	288,293
Non-operating expenses		
Losses of disposal in property and equipment and assets held for sale	1,370	927
Donation	31,813	41,839
Restoration cost	2,421	722
Others	25,657	51,369
	61,261	94,857
Net non-operating income(expenses)	₩ 49,311	₩ 193,436

32. Income Tax Expense

Income tax expense for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Tax payable		
Current tax expense	₩ 492,690	₩ 207,579
Adjustments recognized in the period for current tax of prior years	21,521	(16,207)
	514,211	191,372
Changes in deferred income tax assets (liabilities)	(204,625)	51,908
Income tax expense of overseas branches	3,447	3,827
Income tax recognized directly in equity		
Changes in value of available-for-sale financial assets	961	24,707
Changes in exchange difference of foreign operation	(3,154)	-
Changes in remeasurements of net defined benefit liabilities	(2,587)	4,627
Gains on hedging investment of a net investment in a foreign operation	2,176	8,134
Gains(Losses) on cash flow hedging instruments	(108)	-
Others	74	(778)
	(2,638)	36,690
Consolidated tax effect	(18,394)	(9,806)
Tax expense	₩ 292,001	₩ 273,991

An analysis of the net profit before income tax and income tax expense for the years ended December 31, 2016 and 2015, follows:

(In millions of Korean won)	**2016**	**2015**
Profit before income tax	₩ 1,256,257	₩ 1,381,229
Tax at the applicable tax rate[1]	303,552	333,796
Non-taxable income	(8,182)	(53,443)
Non-deductible expense	13,933	13,713
Tax credit and tax exemption	(241)	(397)
Temporary difference for which no deferred tax is recognized	3,877	5,082
Tax supplementary pay(rebate) for tax of prior years	(12,954)	(21,222)
Income tax expense of overseas branches	3,447	3,827
Tax effect of investments in subsidiaries	7,143	1,241
Foreign subsidiary tax rate difference effect	(730)	(671)
Consolidated tax effect	(18,394)	(9,806)
Others	550	1,871
Tax expense	₩ 292,001	₩ 273,991
Tax expense / Profit before income tax (%)	23.24	19.84

[1] Applicable income tax rate for ₩ 200 million and below is 11%, for over ₩ 200 million to ₩ 20 billion is 22%, and for over ₩ 20 billion is 24.2%.

Details of current tax liabilities (income tax payables) and current tax assets (income tax refund receivables) before offsetting, as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Income tax refund receivables prior to offsetting[1]	₩ (153,916)	₩ (229,470)
Tax payables prior to offsetting[2]	496,910	210,024
Tax payables (receivables) after offsetting	342,994	(19,446)
Adjustment on consolidated tax payable and others[3]	(18,394)	(9,806)
Accounts receivables (payables)[4]	(319,243)	36,373
Current tax payable	₩ 5,357	₩ 7,121

[1] Excludes current tax assets of ₩ 11,400 million (2015: ₩ 17,612 million) from uncertain tax position, which do not qualify for offsetting.
[2] Includes income tax payable of ₩ 5,357 million (2015: ₩ 7,121 million) under current tax liabilities as of December 31, 2016, 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 shareholder of the Bank in respect of the year ended December 31, 2016, of ₩ 889 per share, amounting to total dividends of ₩ 359,493 million, is to be proposed at the annual general shareholder's meeting on March 23, 2017. The Group's consolidated financial statements as of December 31, 2016, do not reflect this dividend payable.

34. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016				
	Beginning	**Changes (excluding reclassification)**	**Reclassification to profit or loss**	**Tax effect**	**Ending**
Remeasurements of net defined benefit liabilities	₩ (102,182)	₩ 10,690	₩ -	₩ (2,587)	₩ (94,079)
Currency translation differences	32,993	(2,330)	-	(3,154)	27,509
Gains(losses) on valuation of available-for-sale financial assets	682,818	85,219	(88,033)	961	680,965
Gains(losses) on valuation of equity method investments	(87,346)	(305)	-	74	(87,577)
Gains(losses) on cash flow hedging instruments	-	445	-	(108)	337
Gains(losses) on hedges of a net investment in a foreign operations	(25,476)	(8,992)	-	2,176	(32,292)
	₩ 500,807	₩ 84,727	₩ (88,033)	₩ (2,638)	₩ 494,863

(In millions of Korean won)	2015				
	Beginning	**Changes (excluding 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)
	₩ 570,811	₩ 209,831	₩ (316,525)	₩ 36,690	₩ 500,807

35. Trust Accounts

Financial information of the trust accounts the Group manages as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016		2015	
	Total assets	**Operating revenues**	**Total assets**	**Operating revenues**
Consolidated	₩ 3,978,501	₩ 120,348	₩ 3,754,063	₩ 125,392
Unconsolidated	43,653,701	1,132,375	34,216,814	1,334,526
	₩ 47,632,202	₩ 1,252,723	₩ 37,970,877	₩ 1,459,918

[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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Assets		
Accrued trust fees	₩ 28,855	₩ 27,796
Liabilities		
Due to trust accounts	4,430,508	2,791,403
Accrued interest on due to trust accounts	6,767	6,354
	₩ 4,437,275	₩ 2,797,757

Significant revenue and expenses related to the Group's trust for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Revenues		
Fees and commissions from trust accounts	₩ 182,405	₩ 241,246
Commissions from early termination in trust accounts	65	171
	₩ 182,470	₩ 241,417
Expenses		
Interest expenses on due to trust accounts	₩ 37,750	₩ 48,293

36. Supplemental Cash Flow Information

Cash and cash equivalents as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Cash	₩ 2,154,729	₩ 2,073,741
Checks with other banks	400,422	396,955
Due from Bank of Korea	7,676,491	6,791,990
Due from other financial institutions	4,450,204	5,300,304
	14,681,846	14,562,990
Restricted due from financial institutions	(7,859,701)	(6,905,907)
Due from financial institutions with original maturities over three months	(483,987)	(1,187,577)
	(8,343,688)	(8,093,484)
	₩ 6,338,158	₩ 6,469,506

Significant non-cash transactions for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Decrease in loans due to the write-offs	₩ 977,988	₩ 979,633
Changes in accumulated other comprehensive income due to valuation of financial investments	(1,853)	(77,712)
Changes in accumulated other comprehensive income due to investment in associates	(231)	2,536
Changes in financial investments due to debt-for-equity swap	43,820	14,729
Reclassification from investments in associates to available-for-sale financial assets	220,809	-

Cash inflows and outflows from income tax, interest and dividends for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	Activities	2016	2015
Income tax paid	Operating	₩ 91,082	₩ 99,296
Interest received	Operating	8,088,194	8,956,307
Interest paid	Operating	3,191,351	4,063,499
Dividends received	Operating	86,651	84,765
Dividends paid	Financing	380,521	230,496

37. Contingent Liabilities and Commitments

Acceptances and guarantees as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Confirmed acceptances and guarantees		
Confirmed acceptances and guarantees in Korean won		
Acceptances and guarantees for KB purchasing loan	₩ 329,051	₩ 422,316
Others	588,950	609,034
	918,001	1,031,350
Confirmed acceptances and guarantees in foreign currencies		
Acceptances of letter of credit	234,125	250,647
Letter of guarantees	64,189	51,500
Bid bond	64,242	62,402
Performance bond	703,076	1,006,304
Refund guarantees	1,689,343	1,924,030
Others	1,593,770	1,444,618
	4,348,745	4,739,501
Financial guarantees		
Acceptances and guarantee for issue of debentures	31,000	51,200
Acceptances and guarantees for mortgage	25,994	27,805
Overseas debt guarantees	272,255	374,769
International financing guarantees in foreign currencies	52,961	11,893
Others	270,000	-
	652,210	465,667
	5,918,956	6,236,518
Unconfirmed acceptances and guarantees		
Guarantees of letter of credit	2,068,106	2,142,496
Refund guarantees	217,272	1,019,116
	2,285,378	3,161,612
	₩ 8,204,334	₩ 9,398,130

Acceptances and guarantees by counterparty as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Large companies	₩ 5,129,393	₩ 1,644,556	₩ 6,773,949	82.57
Small medium sized companies	623,422	479,515	1,102,937	13.44
Public and others	166,141	161,307	327,448	3.99
	₩ 5,918,956	₩ 2,285,378	₩ 8,204,334	100.00

(In millions of Korean won)

	2015			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
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
	₩ 6,236,518	₩ 3,161,612	₩ 9,398,130	100.00

Acceptances and guarantees by industry as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
Financial institutions	₩ 74,282	₩ 3,710	₩ 77,992	0.95
Manufacturing	3,315,257	1,141,571	4,456,828	54.32
Service	765,051	63,847	828,898	10.10
Wholesale and retail	1,171,151	779,163	1,950,314	23.77
Construction	509,329	129,111	638,440	7.78
Public	82,646	92,445	175,091	2.13
Others	1,240	75,531	76,771	0.95
	₩ 5,918,956	₩ 2,285,378	₩ 8,204,334	100.00

(In millions of Korean won)

	2015			
	Confirmed guarantees	Unconfirmed guarantees	Total	Proportion (%)
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
	₩ 6,236,518	₩ 3,161,612	₩ 9,398,130	100.00

Commitments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

	2016	2015
Commitments		
Corporate loan commitments	₩ 36,012,231	₩ 39,088,006
Retail loan commitments	15,727,639	15,051,360
Other acceptance and guarantees in Korean won	1,000,000	1,000,000
Purchase of securities	1,521,778	1,613,287
	54,261,648	56,752,653
Financial Guarantees		
Credit line	2,418,997	3,449,749
Purchase of securities	290,100	98,700
	2,709,097	3,548,449
	₩ 56,970,745	₩ 60,301,102

Other Matters (including litigation)

a) The Bank has filed 80 lawsuits (excluding minor lawsuits in relation to the collection or management of loans), as the plaintiff, involving aggregate claims of ₩ 435,413 million, and faces 116 lawsuits as the defendant (excluding minor lawsuits in relation to the collection or management of loans) involving aggregate damages of ₩ 382,322 million, which arose in the normal course of the business and are still pending as of December 31, 2016.

b) The face values of the securities sold to general customers through tellers' sale amount to ₩ 5,731 million and ₩ 11,254 million as of December 31, 2016 and 2015, respectively.

38. Subsidiaries

Details of subsidiaries as of December 31, 2016, are as follows:

Name of subsidiary	Ownership (%)	Location	Industry
Kookmin Bank Int'l Ltd.(London)	100.00	United Kingdom	Banking and foreign exchange transaction
Kookmin Bank Hongkong 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.[1]	100.00	China	Banking and foreign exchange transaction
Personal pension trust and 10 others [2]	-	Korea	Trust
KL the 1st L.L.C. and 20 others [3]	-	Korea	Asset-backed securitization and others
KB Haeorum Private securities 26 and 6 others [4]	100.00	Korea	Private equity fund
KB Wise Star Private Real Estate Feeder Fund 1 [4]	86.00	Korea	Investment Trust
KB Star Retail Private Real Estate Master Fund 1 [3, 5]	42.12	Korea	Investment Trust
KB Star Office Private Real Estate Master Fund 2 [3, 5]	38.22	Korea	Investment Trust

[1] For the year ended December 31, 2016, Kookmin Bank (China) Ltd.'s functional currency has changed from USD to CNY.
[2] 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.
[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, even though it holds less than a majority of the voting rights of the investees.
[4] 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.
[5] Ownerships are based on total holding of the Bank and its subsidiaries.

The condensed financial information of major subsidiaries as of December 31, 2016 and 2015, and for the years ended December 31, 2016 and 2015, is as follows:

(In millions of Korean won)	2016				
	Assets	**Liabilities**	**Equity**	**Operating revenue**	**Profit for the period**
Kookmin Bank Int'l Ltd.(London)	₩ 501,788	₩ 410,962	₩ 90,826	₩ 13,699	₩ 3,982
Kookmin Bank Hongkong Ltd.	926,001	760,112	165,889	19,105	5,648
Kookmin Bank Cambodia PLC.	162,133	99,510	62,623	6,858	742
Kookmin Bank (China) Ltd.	1,838,326	1,415,062	423,264	57,769	5,282
Personal pension trust and 10 others	4,016,964	3,913,743	103,221	122,195	2,899

(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 Hongkong 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

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 has provided purchase commitment and grant of credit to the structured entities that are considered as subsidiaries. The Bank should purchase unsold commercial paper securities if there is a shortage of the investors for the commercial paper securities issued by the structured entity. If events causing the cessation of the issuance of commercial paper securities occur or if the structured entities become insolvent, the Bank should provide loans to the structured entities under certain conditions.

(In millions of Korean won)	**2016**
Silver Investment 2nd Inc.	₩ 50,000
KDL the 1st L.L.C.	50,000
KBC the 1st L.L.C.	35,000
KBM the 1st L.L.C.	50,000
KH the 4th L.L.C.	25,000
KH the 3rd L.L.C.	100,000
KH the 2nd L.L.C.	40,000
KL the International 1st L.L.C.	50,000
KL the 3rd L.L.C.	30,000
KL the 1st L.L.C.	50,000
KL Food the 1st L.L.C.	50,000
KY the 1st L.L.C.	24,000
KBY the 1st L.L.C.	15,000
KBH the 1st L.L.C.	20,000
KBH the 2nd L.L.C.	30,000
KB INO 1st L.L.C.	50,000
LIIV FOR RENTAL 1st L.L.C.	70,000

- 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

KL the 1st L.L.C. and 16 other subsidiaries were newly consolidated during the year ended December 31, 2016.

39. Unconsolidated Structured Entity

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

As of December 31, 2016 and 2015, 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)

	2016				
	Asset-backed securitization	**Project Financing**	**Investment funds**	**Others**	**Total**
Total assets of the unconsolidated structured entities	₩ 70,019,012	₩ 21,562,287	₩ 15,125,330	₩ 2,140,135	₩ 108,846,764
Carrying amount on financial statements					
Assets					
Financial assets at fair value through profit or loss	129,742	-	-	-	129,742
Derivative financial assets	110	-	-	-	110
Loans	438,711	2,283,110	-	146,256	2,868,077
Financial investments	6,394,577	8,595	3,654,414	17,046	10,074,632
Investments in associates	-	-	229,561	-	229,561
	₩ 6,963,140	₩ 2,291,705	₩ 3,883,975	₩ 163,302	₩ 13,302,122
Liabilities					
Deposits	₩ 528,035	₩ 703,049	₩ 49,587	₩ 6,857	₩ 1,287,528
	₩ 528,035	₩ 703,049	₩ 49,587	₩ 6,857	₩ 1,287,528
Maximum exposure to loss					
Asset[1]	₩ 6,963,140	₩ 2,291,705	₩ 3,883,975	₩ 163,302	₩ 13,302,122
Purchase and capital commitments	-	-	1,620,871	-	1,620,871
Unused providing lines of credit	2,420,854	-	-	-	2,420,854
Acceptances and guarantees and Loan commitments	290,100	1,475,760	-	-	1,765,860
	₩ 9,674,094	₩ 3,767,465	₩ 5,504,846	₩ 163,302	₩ 19,109,707
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	

(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
	₩ 9,722,361	₩ 2,520,025	₩ 1,820,363	₩ 392,063	₩ 14,454,812
Liabilities					
Deposits	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
	₩ 258,554	₩ 728,059	₩ 15,159	₩ 19,743	₩ 1,021,515
Maximum exposure to loss					
Asset[1]	₩ 9,722,361	₩ 2,520,025	₩ 1,820,363	₩ 392,063	₩ 14,454,812
Purchase and capital commitments	98,700	14,177	1,661,862	-	1,774,739
Unused providing lines of credit	3,449,749	-	-	-	3,449,749
Acceptances and guarantees and Loan commitments	10,832	1,234,150	-	29,801	1,274,783
	₩ 13,281,642	₩ 3,768,352	₩ 3,482,225	₩ 421,864	₩ 20,954,083
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.

40. Finance and Operating Leases

40.1 Finance Lease

The future minimum lease payments as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Net carrying amount of finance lease assets	₩ 24,290	₩ 32,583
Minimum lease payments		
Within 1 year	1,572	1,983
1-5 years	54	226
	₩ 1,626	₩ 2,209
Present value of minimum lease payments		
Within 1 year	1,551	1,950
1-5 years	54	222
	₩ 1,605	₩ 2,172

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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Minimum lease payments		
Within 1 year	₩ 116,505	₩ 107,696
1-5 years	133,381	92,729
Over 5 years	34,488	34,679
	₩ 284,374	₩ 235,104
Minimum sublease payments	₩ (1,891)	₩ (1,340)

The lease payments reflected in profit or loss for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Lease payment reflected in profit or loss		
Minimum lease payments	₩ 166,120	₩ 167,053
Sublease payments	(1,002)	(721)
	₩ 165,118	₩ 166,332

40.2.2 The Group as Operating Lessor

The future minimum lease receipts arising from the non-cancellable lease contracts as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	2016	2015
Minimum lease receipts		
Within 1 year	₩ 18,383	₩ 9,212
1-5 years	33,031	9,866
	₩ 51,414	₩ 19,078

41. Related Party Transactions

Profit and loss arising from transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

(In millions of Korean won)

		2016	2015
Parent			
KB Financial Group Inc.	Fee and commission income	₩ 3,422	₩ 719
	Other non-operating income	765	999
	Interest expense	2,262	2,429
	General and administrative expenses	203	-
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Fee and commission income	889	607
	Other non-operating income	3	-
	Interest expense	820	1,148
	Fee and commission expense	635	835
KB Real Estate Trust Co., Ltd.	Fee and commission income	35	4
	Other non-operating income	39	41
	Interest expense	139	904
	Fee and commission expense	1,195	956
KB Investment Co., Ltd.	Fee and commission income	11	-
	Interest expense	480	590
KB Kookmin Card Co., Ltd.	Interest income	3,307	3,010
	Fee and commission income	243,282	245,202
	Gains on financial assets/ liabilities at fair value through profit or loss	3,376	-
	Reversal of credit losses	-	1
	Other non-operating income	1,212	1,126
	Interest expense	3,010	5,690
	Fee and commission expense	176	141
	Provision for credit losses	70	-
	General and administrative expenses	163	-
KB Credit Information Co., Ltd.	Fee and commission income	33	187
	Other non-operating income	298	324
	Interest expense	129	197

	Fee and commission expense	16,444	18,442
KB Data System Co., Ltd.	Fee and commission income	34	1
	Other non-operating income	74	47
	Interest expense	165	267
	Other non-operating expense	33	-
	General and administrative expenses	16,046	14,160
KB Life Insurance Co., Ltd.	Fee and commission income	12,380	19,591
	Gains on financial assets/ liabilities at fair value through profit or loss	2,018	-
	Other non-operating income	466	56
	Interest expense	965	1,151
	Losses on financial assets/ liabilities at fair value through profit or loss	486	-
	General and administrative expenses	1,942	-
KB Savings Bank Co., Ltd.	Fee and commission income	246	81
	Other non-operating income	39	15
KB Capital Co., Ltd.	Fee and commission income	579	243
	Other non-operating income	115	89
	Interest expense	4	2
KB Securities Co., Ltd. [2]	Interest income	1,706	159
	Fee and commission income	6,535	3,694
	Gains on financial assets/ liabilities at fair value through profit or loss	7,189	-
	Other operating income	4	-
	Reversal of credit losses	38	2
	Other non-operating income	1,645	928
	Interest expense	2,398	2,282
	Fee and commission expense	428	635
	Losses on financial assets/ liabilities at fair value through profit or loss	10,250	-
	Other operating expense	-	10
Hanbando BTL Private Special Asset Fund	Fee and commission income	179	203
KB Senior Loan Private Fund No.1	Fee and commission income	32	23
KB Mezzanine Private Securities Fund[1]	Fee and commission income	52	203
Associates			
Korea Credit Bureau Co., Ltd.	Fee and commission income	3	3
	Interest expense	92	73
Incheon Bridge Co., Ltd.	Interest income	14,534	12,843
	Reversal of credit losses	-	2
	Interest expense	369	436
	Provision for credit losses	30	-
MJT&I Corp.	Interest income	2	-
Doosung Metal Co., Ltd.	Interest income	1	-
Jaeyang Industry Co., Ltd.	Reversal of credit losses	37	-
KB12-1 Venture Investment Partnership	Interest expense	35	107

KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Interest expense	10	-
KB High-tech Company Investment Fund	Interest expense	76	-
Aju Good Technology Venture Fund	Interest expense	4	-
KB Star Office Private Real Estate Investment Trust No.1	Interest expense	87	92
UAMCO., Ltd.[1]	Fee and commission income	5	14
	Interest expense	1	8
United PF 1st Recovery Private Equity Fund[1]	Interest expense	1	49
Associate of parent			
KB Insurance Co., Ltd.	Interest income	63	50
	Fee and commission income	12,019	2,456
	Gains on financial assets/ liabilities at fair value through profit or loss	4,822	2,761
	Reversal of credit losses	30	-
	Other non-operating income	110	10
	Interest expense	1,057	164
	Losses on financial assets/ liabilities at fair value through profit or loss	3,384	164
	General and administrative expenses	11,154	2,633
Associates of parent's subsidiaries			
KB No.3 Special Purpose Acquisition Company[1]	Interest expense	-	5
KB No.4 Special Purpose Acquisition Company[1]	Interest expense	-	25
KB No.5 Special Purpose Acquisition Company[1]	Interest expense	19	44
KB No.6 Special Purpose Acquisition Company[1]	Interest expense	14	66
KB No.7 Special Purpose Acquisition Company[1]	Interest expense	18	38
KB No.8 Special Purpose Acquisition Company	Interest expense	35	21
KB No.9 Special Purpose Acquisition Company	Interest expense	40	7
KB No.10 Special Purpose Acquisition Company	Interest expense	8	-
SY Auto Capital Co., Ltd.	Interest income	193	-
	Interest expense	19	24
	Provision for credit losses	61	-
RAND Bio Science Co., Ltd.	Interest expense	14	-
KB IC 3rd Private Equity Fund	Interest expense	12	23
SAWNICS Inc. [1]	Interest expense	-	1
E-clear International Co., Ltd.[1]	Interest income	-	18
Other			
Retirement pension	Fee and commission income	717	611
	Interest expense	749	955

[1] Not considered to be the Group's related party as of December 31, 2016.

[2] During the year, Hyundai Securities Co., Ltd. and KB Investment and Securities Co., Ltd. merged. Therefore the profit and loss of Hyundai Securities Co., Ltd after Hyundai Securities Co.,Ltd. became the related party of the Group was included.

Details of receivables and payables, and related allowances for loan losses arising from the related party transactions as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		2016	2015
Parent			
KB Financial Group Inc.	Other assets	₩ 3,313	₩ 41,442
	Deposits	57,967	324,947
	Other liabilities	426,522	54,619
Parent's subsidiaries			
KB Asset Management Co., Ltd.	Other assets	226	169
	Deposits	73,279	74,062
	Other liabilities	410	438
KB Real Estate Trust Co., Ltd.	Deposits	21,211	24,025
	Other liabilities	353	405
KB Investment Co., Ltd.	Deposits	23,954	37,125
	Other liabilities	55	117
KB Kookmin Card Co., Ltd.	Other assets	25,573	26,891
	Derivative assets[2]	3,376	-
	Deposits	160,002	385,060
	Provisions	485	415
	Other liabilities	50,231	64,136
KB Credit Information Co., Ltd.	Other assets	6	183
	Deposits	3,465	5,864
	Other liabilities	6,439	6,226
KB Data System Co., Ltd.	Other assets	2,312	893
	Deposits	10,926	18,028
	Other liabilities	2,366	1,242
KB Life Insurance Co., Ltd.	Other assets	976	1,218
	Derivative assets[3]	2,018	-
	Deposits	700	255
	Debts	25,000	25,000
	Other liabilities	3,136	103
KB Savings Bank Co., Ltd.	Other assets	77	17
	Other liabilities	378	371
KB Capital Co., Ltd.	Other assets	17	11
	Deposits	9,075	741
KB Securities Co., Ltd.	Cash and due from financial institutions	284	282
	Gross amounts of loans	-	8,438
	Allowances	-	3
	Other assets	395	402
	Derivative assets[4]	2,739	-
	Deposits	116,893	117,257
	Debentures	300	-
	Provisions	234	13
	Other liabilities	191,719	5,134
	Derivative liabilities[4]	2,018	-
Hanbando BTL Private Special Asset Fund	Other assets	44	46
KB Senior Loan Private Fund No.1	Other assets	8	11
KB Mezzanine Private Securities Fund[1]	Other assets	-	27

Associates			
JSC Bank CenterCredit	Cash and due from financial institutions	8	1,225
Korea Credit Bureau Co., Ltd.	Deposits	26,827	19,435
	Other liabilities	75	22
Incheon Bridge Co., Ltd.	Gross amounts of loans	209,094	231,653
	Allowances	330	300
	Other assets	821	970
	Deposits	38,556	35,916
	Other liabilities	166	153
Terra Corporation	Deposits	-	1
Jungdong Steel Co., Ltd.	Deposits	3	-
Doosung Metal Co., Ltd.	Deposits	-	1
EJADE Co., Ltd.	Deposits	2	12
DPAPS Co., Ltd.	Deposits	-	3
Jaeyang Industry Co., Ltd.	Gross amounts of loans	303	-
	Allowances	6	-
	Other assets	7	-
KB12-1 Venture Investment Partnership	Deposits	4,562	5,753
	Other liabilities	2	4
KB High-tech Company Investment Fund	Deposits	4,643	-
	Other liabilities	4	-
Aju Good Technology Venture Fund	Deposits	1,201	-
	Other liabilities	1	-
KB Star office Private real estate Investment Trust No.1	Deposits	6,682	7,446
	Other liabilities	50	56
UAMCO., Ltd [1]	Deposits	-	815
Associates of Parent			
KB Insurance Co., Ltd.	Other assets	8,372	6,503
	Derivative assets[5]	3,941	2,059
	Deposits	9,883	8,415
	Debts	20,000	20,000
	Provisions	-	30
	Other liabilities	1,240	789
	Derivative liabilities[5]	2,811	219
Associates of Parent's subsidiaries			
KB No.5 Special Purpose Acquisition Company[1]	Deposits	-	2,323
	Other liabilities	-	39
KB No.6 Special Purpose Acquisition Company [1]	Deposits	-	4,195
	Other liabilities	-	68
KB No.7 Special Purpose Acquisition Company[1]	Deposits	-	2,336
	Other liabilities	-	37
KB No.8 Special Purpose Acquisition Company	Deposits	2,342	2,373
	Other liabilities	3	21
KB No.9 Special Purpose Acquisition Company	Deposits	2,399	2,973
	Other liabilities	6	7
KB No.10 Special Purpose Acquisition Company	Deposits	1,754	-
	Other liabilities	8	-
SY Auto Capital Co., Ltd.	Gross amounts of loans	10,000	-
	Allowances	32	-
	Other assets	6	-
	Deposits	3,997	1,845
	Provisions	29	-
	Other liabilities	6	-
RAND Bio Science Co., Ltd.	Deposits	2,356	-
	Other liabilities	12	-

Inno Lending Co.,Ltd.	Deposits	1,902	-
isMedia Co.,Ltd.	Provisions	4	-
KB IC 3rd Private Equity	Deposits	700	850
Fund	Other liabilities	1	9
SAWNICS Inc. [1]	Deposits	-	319
Key management	Gross amounts of loans	1,938	2,280
	Other assets	2	3
	Deposits	8,043	4,114
	Other liabilities	138	29
Others			
Retirement pension	Other assets	304	264
	Deposits	1,464	51,920
	Other liabilities	16,497	37,969

[1] Not considered to be the Group's related party as at December 31, 2016.

[2] Notional amount related to derivative assets and liabilities is ₩ 90,425 million as of December 31, 2016.

[3] Notional amount related to derivative assets and liabilities is ₩ 25,076 million as of December 31, 2016.

[4] Notional amount related to derivative assets and liabilities is ₩ 226,678 million as of December 31, 2016.

[5] Notional amount related to derivative assets and liabilities is ₩ 251,833 million as of December 31, 2016.

In accordance with Korean IFRS 1024, the Group includes the Parent, the Parent’s subsidiaries, associates, associates of the 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, 2016 and 2015, are as follows:

(In millions of Korean won)	2016[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Kookmin Card Co., Ltd.	₩ -	₩ 1,910	₩ 1,910	₩ -	₩ -
KB Securities Co., Ltd.	8,438	-	8,438	-	-
Associate					
Incheon Bridge Co., Ltd.	231,653	4,000	26,559	-	209,094
Associate of Parent's subsidiary					
SY Auto Capital Co., Ltd.	-	10,000	-	-	10,000

(In millions of Korean won)	2015[1]				
	Beginning	**Loans**	**Repayments**	**Others**	**Ending**
Parent's subsidiaries					
KB Kookmin Card Co., Ltd.	₩ -	₩ 4,005	₩ 4,005	₩ -	₩ -
KB Securities Co., Ltd.	34,997	14,094	40,653	-	8,438
Associate					
Incheon Bridge Co., Ltd.	247,870	8,000	24,217	-	231,653

[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, 2016 and 2015, are as follows:

(In millions of Korean won)		**2016**	**2015**
Parent's subsidiaries			
KB Investment Co., Ltd.	Purchase of securities	₩ 200	₩ 600
	Loss sharing agreements	1,000	1,000
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	520,000	520,000
	Other commitments in Korean won	1,000,000	1,000,000
KB Securities Co., Ltd.	Loan commitment in Korean won	192,500	39,062
Hanbando BTL Private Special Asset Fund	Purchase of securities	15,931	15,931
Hope Sharing BTL Private Special Asset Fund	Purchase of securities	48,045	48,045
KB Mezzanine Private Security Investment Trust No.2	Purchase of securities	30,589	51,048
KB Senior Loan Private Fund No.1	Purchase of securities	35,958	64,964
KB Mezzanine Private Securities Fund[1]	Purchase of securities	-	18,359
Associates			
JSC Bank CenterCredit	Loan commitment in foreign currencies	-	117,200
Balhae Infrastructure Fund	Purchase of securities	13,371	18,098

Incheon Bridge Co., Ltd.	Loan commitment in Korean won	50,000	38,963
KoFC KBIC Frontier Champ 2010-5 (PEF)	Purchase of securities	1,290	1,290
KoFC POSCO HANWHA KB Shared Growth No.2. Private Equity Fund	Purchase of securities	10,040	13,040
Future Planning KB Start-up Creation Fund	Purchase of securities	4,000	8,000
KB High-tech Company Investment Fund	Purchase of securities	10,000	-
Aju Good Technology Venture Fund	Purchase of securities	18,000	-
UAMCO., Ltd. [1]	Purchase of securities	-	89,950
United PF 1st Recovery Private Equity Fund [1]	Purchase of securities	-	49,383
Associates of Parent			
KB Insurance Co., Ltd.	Loan commitment in Korean won	-	20,000
Associates of Parent's subsidiaries			
SY Auto Capital Co., Ltd.	Loan commitment in Korean won	10,000	-
isMedia Co.,Ltd.	Loan commitment in Korean won	1,260	-
Key management	Loan commitment in Korean won	437	223

[1] Not considered to be the Group's related party as of December 31, 2016.

Unused commitments received from related parties as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)		**2016**	**2015**
Parent's subsidiaries			
KB Investment Co., Ltd.	Loss sharing agreements	₩ 10,967	₩ 8,539
KB Real Estate Trust Co., Ltd.	Purchase of securities	4,319	4,319
KB Life Insurance Co., Ltd.	Purchase of securities	21,595	21,595
KB Securities Co., Ltd.	Purchase of securities	4,319	4,319
KB Kookmin Card Co., Ltd.	Loan commitment in Korean won	77,967	80,316

Compensation to key management for the years ended December 31, 2016 and 2015, consists of:

(In millions of Korean won)	2016			
	Short-term employee benefits	**Post-employment benefits**	**Share-based payments**	**Total**
Registered directors (executive)	₩ 909	₩ 40	₩ 1,191	₩ 2,140
Registered directors (non-executive)	303	-	-	303
Non-registered directors	4,009	156	4,724	8,889
	₩ 5,221	₩ 196	₩ 5,915	₩ 11,332

(In millions of Korean won)	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
	₩ 5,234	₩ 116	₩ 3,446	₩ 8,796

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, 2016 and 2015, is as follows:

(In millions of Korean won)		2016		2015	
	Assets pledged	**Carrying amount**	**Collateralized amount**	**Carrying amount**	**Collateralized amount**
Parent's subsidiaries					
KB Securities Co., Ltd.	Securities	₩ 74,964	₩ 75,000	₩ 54,042	₩ 54,000
KB Life Insurance Co., Ltd.	Securities	26,197	25,000	16,263	15,000
	Building / Land	217,369	32,500	426,885	45,500
Parent's associates					
KB Insurance Co., Ltd.	Securities	50,000	50,000	-	-
	Building / Land	217,369	26,000	216,284	26,000

Collateral received from related parties as of December 31, 2016 and 2015, is as follows:

(In millions of Korean won)		2016	2015
Parent's subsidiaries			
KB Securities Co., Ltd.	Time deposits/ Beneficiary right certificate	₩ 206,250	₩ 52,000
	Securities	20,000	–
KB Life Insurance Co., Ltd.	Securities	10,000	–
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
Parent's associates			
KB Insurance Co., Ltd.	Securities	50,000	-
Key management	Time deposits and others	251	249
	Real estate	2,759	2,662

As of December 31, 2016, Incheon Bridge Co., Ltd, a related party, provides fund management account, civil engineering completed risk insurance, shares and management rights as unsubordinated 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 ₩ 201,110 million to subordinated debt holders consisting of the Bank and two other institutions.

The Bank and KB Kookmin Card Co., Ltd. are jointly and severally 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, 2016, was approved by the Board of Directors on February 8, 2017.

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