IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (I) QIBS (AS DEFINED BELOW) OR (II) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S (AS DEFINED BELOW).

You must read the following disclaimer before continuing: The following disclaimer applies to the attached offering circular. You are therefore advised to read this disclaimer carefully and in full before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your representation: You have accessed the attached document on the basis that you have confirmed your representation to J.P. Morgan Securities plc, Citigroup Global Markets Inc., Nomura International plc and UBS AG, Hong Kong Branch (each an "Initial Purchaser") that (i) either (a) you are outside the United States and, to the extent you purchase the Securities, as defined and described in the attached offering circular, you will be doing so pursuant to Regulation S under the US Securities Act of 1933, as amended (the "Securities Act") or (b) you are acting on behalf of, or you are, a qualified institutional buyer ("QIB"), as defined in Rule 144A under the Securities Act, and (ii) you consent to delivery of the attached offering circular and any amendments or supplements thereto by electronic transmission.

The attached offering circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Initial Purchasers or any of its respective directors, officers, employees, representatives, agents or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Prospective purchasers that are QIBs are hereby notified that the seller of the Securities described in the offering circular will be relying on the exemption from the provisions of Section 5 of the Securities Act pursuant to Rule 144A.

Restrictions: The attached offering circular is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Securities described in the offering circular. You are reminded that the information in the attached offering circular is not complete and may be changed.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF THE SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS 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.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of Kyobo Life Insurance Co., Ltd. or the Initial Purchasers to subscribe for or purchase any of the Securities described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere.

The attached offering circular does 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 of the Securities be made by a licensed broker or dealer and any Initial Purchaser or any affiliate of an Initial Purchaser, licensed brokers or dealers in that jurisdiction, the offering of any of the Securities shall be deemed to be made by such Initial Purchaser or such affiliate on behalf of Kyobo Life Insurance Co., Ltd. in such jurisdiction.

You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the Securities described therein.

Actions that you may not take: You should not reply by e-mail to this announcement, and you may not purchase any Securities by doing so. Any reply e-mail communication, including those you generate by using the "Reply" function on your e-mail software, will be ignored and/or rejected.

THE ATTACHED OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED IN THE ATTACHED OFFERING CIRCULAR.

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 **Strictly Confidential**

Kyobo Life Insurance Co., Ltd.

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

U.S.$500,000,000 3.95% Subordinated Capital Securities

The U.S.$500,000,000 3.95% Subordinated Capital Securities (the "Securities") are issued by Kyobo Life Insurance Co., Ltd (the "Issuer"). The Securities confer a right to receive distributions (each a "Distribution") (i) in respect of the period from, and including, July 24, 2017 (the "Issue Date") to, but excluding, July 24, 2022 (the "Initial Reset Date," and such period, the "Initial Rate Period"), 3.95% per annum (the "Initial Distribution Rate"); (ii) in respect of the period from, and including, the Initial Reset Date to, but excluding, July 24, 2027 (the "Step-Up Date"), a rate per annum equal to the sum of the Treasury Rate plus the Initial Spread (the "Initial Reset Distribution Rate"); and (iii) in respect of the period from, and including, the Step-Up Date or each Reset Date thereafter, as the case may be, to, but excluding, the immediately following Reset Date, the applicable Reset Step-Up Distribution Rate. Terms relating to the Securities not otherwise defined have the meanings given to them in "Terms and Conditions of the Securities." Subject to the provisions of the Securities relating to the mandatory cancellation of Distributions (see "Terms and Conditions of the Securities — Distribution — Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event"), Distributions shall be payable on the Securities semi-annually in arrear on January 24 and July 24 in each year (each a "Distribution Payment Date") with the first Distribution Payment Date falling on January 24, 2018.

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

Unless previously redeemed or purchased and cancelled as described below, the Issuer may at its option redeem the Securities, in whole but not in part, at their outstanding principal amount on July 24, 2047 (the "Initial Issuer Redemption Date") and on each date that falls 30, or a multiple of 30, calendar years after the Initial Issuer Redemption Date (each such date together with the Initial Issuer Redemption Date, an "Issuer Redemption Date"); provided that, if the Securities are not redeemed at the option of the Issuer on any Issuer Redemption Date, the Securities will automatically be extended for 30 years from such Issuer Redemption Date. The Issuer may, on the Initial Reset Date and on each Distribution Payment Date thereafter, upon giving a notice of redemption, redeem the Securities, in whole but not in part, at a redemption price equal to the principal amount of the Securities plus any accrued but unpaid Distribution (other than any Distribution which has been cancelled) (the "Optional Redemption Price"); provided that (a) such redemption may not occur within five years of the Issue Date; and (b) either (i) immediately after such redemption (which shall have been decided by the Issuer at its sole discretion and approved by the Financial Supervisory Service of Korea (the "FSS")), the Issuer's Solvency Margin Ratio shall be equal to or greater than 150%; or (ii) (A) the Issuer's Solvency Margin Ratio shall be equal to or greater than 100%; (B) prior to such redemption, the Issuer issues or incurs qualifying financing via instruments with a maturity longer than the remaining maturity of the Securities and with more favorable financing terms, including but not limited to a lower interest rate) in an amount not less than the aggregate principal amount of the Securities being redeemed, (C) the Distribution Rate of the Securities shall have been recognized by the FSS as significantly unfavorable to the Issuer due to changes in market conditions since the Issue Date, and (D) the Issuer shall have obtained prior approval from the FSS for such redemption ((a) and (b) with other conditions set forth herein, collectively, the "Optional Redemption and Purchase Conditions"). In addition, subject to the satisfaction of the Optional Redemption and Purchase Conditions, the Securities may be redeemed (in whole but not in part) at the option of the Issuer upon the occurrence of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event at the Optional Redemption Price. No notice of redemption with respect to a Gross-Up Event, Regulatory Event, Accounting Event or a Tax Deductibility Event shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amount if a payment in respect of the Securities were then payable (in the case of a Gross-Up Event) or the event is otherwise due to take effect (in the case of a Regulatory Event, Accounting Event or Tax Deductibility Event). See "Terms and Conditions of the Securities — Redemption and Purchase."

The Securities are rated "A3" by Moody's Investor Services, Inc. ("Moody's") and "A-" by Fitch Ratings, Inc. ("Fitch"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

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

The Securities will be issued in registered form in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Securities will be represented on issuance by two or more Global Securities (as defined herein) and it is expected that delivery of the Securities will be made on or about July 24, 2017, in New York, New York through the facilities of The Depository Trust Company ("DTC") against payment therefor in immediately available funds.

The Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only (i) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder ("Rule 144A") and (ii) outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that the seller of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resale or transfer, see "Transfer Restrictions."

See "Risk Factors" beginning on page 16 to read about certain risk factors you should consider before investing in the Securities.

Issue Price: 100.0%

Structuring Coordinator, Joint Bookrunner and Joint Lead Manager

J.P. Morgan

Joint Bookrunners and Joint Lead Managers

Citigroup **Nomura** **UBS**

Co-Manager

Kyobo Securities

The date of this offering circular is July 17, 2017.

TABLE OF CONTENTS

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

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

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

This offering circular has been confidentially submitted to a limited number of investors for them to consider an investment in the Securities. See "Transfer Restrictions." We have not authorized its use for any other purpose. This offering circular may not be copied or reproduced in whole or in part. This offering circular may not be distributed, nor may its contents be disclosed, except to the prospective investors to whom it is provided. By accepting delivery of this offering circular, each investor agrees to all of these restrictions. Notwithstanding anything to the contrary contained in this offering circular, we, the Initial Purchasers and each investor (and each of their respective employees, representatives, or other agents, as applicable) may disclose to any and all persons, without limitations of any kind, the tax treatment and tax structure of the transaction (including any materials, opinions or analyses relating to such tax treatment or tax structure), provided, however, that we, the Initial Purchasers and each investor (and each of their respective employees, representatives, or other agents, as applicable) shall not disclose any information that is not necessary to understand the tax treatment and tax structure of the transaction (including the identity of our company, the Initial Purchasers or any investor and any information that could lead another to determine the identity of our company, the Initial Purchasers or any investor), or any other information to the extent that such disclosure could result in a violation of any U.S. federal or state securities law.

Neither this offering circular nor any other information supplied in connection with the Offering or any Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by us or any of the Initial Purchasers that any recipient of this offering circular or any other information supplied in connection with the Offering or any Securities should purchase any Securities. Each investor contemplating purchasing any Securities should make its own independent investigation of our financial condition and affairs and its own appraisal of our creditworthiness and the terms of the Securities, including the merits and risks involved.

Neither the delivery of this offering circular nor the offering, sale or delivery of any Securities shall in any circumstances imply that the information contained herein concerning us is correct at any time subsequent to the date hereof. The Initial Purchasers assume no responsibility for the accuracy or completeness of any of the information contained in this offering circular or any other information (financial, legal or otherwise) provided by us in connection with the issue of the Securities or their distribution.

This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this offering circular and the offer or sale of the Securities may be restricted by law in certain jurisdictions. We and the Initial Purchasers do not represent that this offering circular may be lawfully distributed, or that any Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by us or the Initial Purchasers that would permit a public offering of any Securities or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this offering circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this offering circular or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this offering circular and the offering and sale of the Securities. In particular, there are restrictions on the distribution of this offering circular and the offer or sale of Securities in the United States of America, the United Kingdom, Hong Kong, Singapore and Korea. See "Plan of Distribution" and "Transfer Restrictions."

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this offering circular or confirmed the accuracy or determined the adequacy of the information contained in this offering circular. Any representation to the contrary is unlawful.

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

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

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

In connection with the Offering, any Initial Purchaser (or person(s) on acting on its behalf) may, individually or collectively, subject to all applicable laws, rules and regulations, over-allot Securities or effect transactions that stabilize or maintain the market price of the Securities at a higher level than the Securities might otherwise achieve in the open market for a limited period of time after the issue date. However, there is no assurance that any Initial Purchaser (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 "Plan of Distribution."

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE "FSCMA"). ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF KOREA ("KOREA") OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND ITS ENFORCEMENT DECREE), FOR A PERIOD OF ONE YEAR FROM THE DATE OF ISSUANCE OF THE NOTES, EXCEPT (I) WHERE RELEVANT REQUIREMENTS ARE SATISFIED, THE SECURITIES 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.

CERTAIN DEFINED TERMS AND CONVENTIONS

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

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

- "we," "us," "our," "ourselves," "our company" or "the Issuer" refers to Kyobo Life Insurance Co., Ltd. and (except for references to "the Issuer") its consolidated subsidiaries;
- "Corporate Governance Act" refers to the Act on Corporate Governance of Financial Companies;
- "FSC" refers to the Financial Services Commission of Korea;
- "FSCMA" refers to the Financial Investment Services and Capital Markets Act of Korea;
- "FSS" refers to the Financial Supervisory Service of Korea;
- "first year premiums" refers to the amount of premiums received during the first year of a policy, which amount is recognized in a specified year or period in respect of policies sold during such year or period;

- "first year regular payment premiums" refers to the amount of non-single payment premiums, principally monthly premiums and including quarterly, semi-annual and annual premiums, recognized in a specified year or period in respect of policies sold during such year or period;

- "first year single payment premiums" refers to the amount of single payment premiums recognized in a specified year or period in respect of policies sold during such year or period;

- "general agencies" refers to large-sized independent insurance sales agencies;

- "Government" refers to the government of the Republic of Korea;

- "gross premiums" refers to the amount of premiums recognized in a specified year or period in respect of policies in force during such year or period, including premiums for our separate accounts;

- "Korea" refers to the Republic of Korea;

- "U.S." or the "United States" refers to the United States of America;

- "U.S. dollars," "US$" or "$" refers to the lawful currency of the United States of America; and

- "Won" or "₩" refers to the lawful currency of the Republic of Korea.

For the reader's convenience, certain Won amounts in this offering circular have been translated into U.S. dollars at the market average exchange rate, announced by Seoul Money Brokerage Services, Ltd. in Seoul, between Won and U.S. dollars, rounded to the nearest tenth of one Won (the "Market Average Exchange Rate"). Unless otherwise stated, the translations of Won into U.S. dollars in this offering circular have been made at the Market Average Exchange Rate in effect on March 31, 2017, which was Won 1,116.1 to US$1.00. For historical information regarding the rate of exchange between the Won and U.S. dollars, see "Exchange Rates." No representation is made that the Won or U.S. dollar amounts referred to in this offering circular could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all. On July 14, 2017, the Market Average Exchange Rate in effect was Won 1,137.5 to US$1.00.

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

The information on our website, http://www.kyobo.co.kr, or any website directly or indirectly linked to such website does not form a part of this offering circular and should not be relied upon.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of and for the years ended December 31, 2014, 2015 and 2016 included in this offering circular have been prepared in accordance with the Korean International Financial Reporting Standards ("K-IFRS"), and our unaudited condensed consolidated and separate interim financial statements as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 included in this offering circular have been prepared in accordance with

K-IFRS No. 1034, "Interim Financial Reporting," which differ in certain significant respects from generally accepted accounting principles in other countries, including the United States. We have made no attempt to identify or quantify the impact of these differences. Certain financial information in this offering circular is presented on a standalone basis, which is based on our separate financial statements.

DOCUMENTS INCORPORATED BY REFERENCE

Our audited separate annual financial statements as of and for the years ended December 31, 2015 and 2016 and the notes thereto (the "2016 Separate Financial Statements"), which were included as part of our annual report filed with the FSS on March 31, 2017, shall be deemed to be incorporated in, and to form part of, this offering circular. An English version of the 2016 Separate Financial Statements is publicly available over the Internet at our website at http://www.kyobo.co.kr. Prospective purchasers of the Securities should carefully review the entire offering circular, including the 2016 Separate Financial Statements incorporated by reference herein, before making an investment decision. No information or material which is, or may become from time to time, available on our website other than the 2016 Separate Financial Statements shall be deemed to be incorporated in, or to form part of, this offering circular.

SUMMARY

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

Our Company

We are one of the leading life insurance companies in Korea, offering a broad range of life insurance and investment products to retail customers as well as group life insurance products and retirement pension plans to institutional customers through our established distribution and marketing channels. As of and for the year ended December 31, 2016, we were ranked as the third largest Korean life insurance company in terms of asset size and gross premiums (including separate account premiums) on a standalone basis, according to the Korea Life Insurance Association. As of March 31, 2017, we had approximately 9.3 million life insurance policies in force and approximately 4.4 million individual policyholders.

We seek to pursue a profit and quality-oriented growth strategy with an emphasis on selling higher-margin life insurance products and improving cost efficiencies. We are strategically focused on product innovation with the objective of increasing the insurance coverage provided to our customers and attracting new business by introducing creative new products and additional services encompassing life insurance, fund and trust products that cater to the evolving investment and protection needs of the rapidly aging Korean population, as well as changes in the regulatory environment. Based on these principles, we have consistently maintained a leading position in the Korean life insurance market in terms of profitability, business profile and financial strength. Among the three largest life insurance companies in Korea in terms of asset size that have historically led the Korean life insurance market, consisting of Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and us, we have recorded the highest profitability as measured by return on equity and return on assets in 2014, 2015 and 2016. We are also the first and only life insurance company in Korea to receive company credit ratings from Moody's and Fitch, with an A1 rating from Moody's in 2015 and 2016 and an A+ rating from Fitch from 2013 to 2016.

We develop and distribute a comprehensive range of individual and group life insurance products that provide protection against a policyholder's death, disability, illness, accident or other events, as well as annuities and savings insurance products. We also offer variable insurance products and retirement pension plans to address our customers' growing preference for greater investment flexibility. Utilizing our ability to develop innovative products in response to changing customer preferences and the substantial resources we have devoted to analyzing changes in demographic, mortality and investment trends, we offer insurance products and services that cater to individuals' specific needs at various stages of their lives. For example, by introducing the "Dream-matching Kyobo Annuity Insurance II (non-participating)" product in 2016, we became the first Korean life insurance company to offer to the private sector an annuity product that enables the annuity payment to pass on to the bereaved family for up to 20 years after the death of the insured person. In addition, our "Kyobo Premier CI Insurance (non-participating)" product, which was also introduced in 2016, expands the customary coverage of protection against critical illnesses to other illnesses that are highly correlated to such critical illnesses and provides customized health care services to manage such correlated illnesses in order to mitigate the risk of their deterioration into more serious illnesses. As of March 31, 2017, 14 of our insurance products had received "exclusive use rights" under Korean financial regulations since 2002, including the “Dream-matching Kyobo Annuity Insurance II (non-participating)” and “Kyobo Premier CI Insurance (non-participating)” products in 2016, which legally prohibit other life insurance companies from introducing similar products in Korea for a period up to six months, representing the most number of such rights obtained by a Korean life insurance company during such period.

Leveraging on the “Kyobo” brand, which we believe is one of the best-recognized brands in the Korean financial services sector, we have achieved our position as a market leader through our multi-channel distribution and marketing platform led by our extensive financial planner channel. We operate a nationwide distribution channel of approximately 17,678 financial planners as of March 31, 2017, who are our exclusive sales agents. Our financial planner channel is complemented by our 59 “Customer Plazas,” which offer comprehensive products and services to our customers and provide training and advisory support to our financial planners, as well as seven “Nobiliare Centers” that target high net worth individuals and other preferred customers. Our distribution and marketing platform also includes bancassurance arrangements with all of the leading commercial banks and many of the securities firms and mutual savings banks in Korea, as well as sales arrangements with individual and general agencies, some of which sell our products on an exclusive basis, in addition to a direct marketing channel. We believe that the strength of our financial planner channel, which primarily focuses on selling higher-margin protection-type life insurance products, and the complementary activities of our other sales channels that mainly sell annuity and savings insurance products enable us to optimize our distribution and marketing efforts based on customer segmentation and targeted product offerings.

We were incorporated in August 1958 as Daehan Kyoyuk Insurance Co., Ltd. and changed our corporate name to Kyobo Life Insurance Co., Ltd. in April 1995. In addition to our core life insurance operation, we engage in the securities business through Kyobo Securities Co., Ltd., in which we hold a 51.6% interest, and operate Korea’s largest chain of bookstores through Kyobo Book Center Co., Ltd., our wholly-owned subsidiary. We established Kyobo Book Center in December 1980, which opened its first store in June 1981. In April 1994, we acquired a controlling interest in Daehan Securities Co., Ltd., Korea’s oldest securities company founded in 1949, and changed its corporate name to Kyobo Securities.

We have a stable and diversified ownership structure that consists of a group of global institutional investors in addition to our senior management. Mr. Chang-Jae Shin, who has been our chief executive officer and representative director since 2000, holds 33.8% of our outstanding common shares. The remainder of our outstanding common shares are primarily owned by investment vehicles or affiliates of various global private equity funds and long-term institutional investors, as well as domestic and foreign financial institutions including globally leading life insurance companies and banks.

Our operating revenues were Won 13,706 billion in 2014, Won 14,255 billion in 2015 and Won 14,442 billion in 2016, and Won 3,947 billion in the first quarter of 2016 and Won 4,670 billion in the first quarter of 2017. We reported net income of Won 517 billion in 2014, Won 644 billion in 2015 and Won 543 billion in 2016, and Won 219 billion in the first quarter of 2016 and Won 190 billion in the first quarter of 2017. We had total assets of Won 97,614 billion and total equity of 7,976 billion as of March 31, 2017.

Our headquarters are located at 1, Jong-ro, Jongro-gu, Seoul 03154, Korea, and our website is http://www.kyobo.co.kr.

Our Strengths

We are a leading life insurance company in Korea differentiated by our:

- stable operating performance in a well-established life insurance market;
- solid market position with superior profitability;
- strong product development capability focusing on high-margin products;
- comprehensive network of distribution and marketing channels with one of the industry's leading financial planner sales forces to support sustainable growth;
- conservative solvency level and prudent risk management; and
- experienced management team and diversified ownership structure.

Our Strategy

Our core business principles are to pursue a profit and quality-oriented growth strategy while maintaining a strong capital position. To attain our objectives, we plan to pursue the following strategies:

- improve the competitive value of our products and services;
- expand our financial planner distribution and marketing channel and strengthen the capabilities of our financial planners;
- proactively respond to evolving regulations and maximize customer satisfaction; and
- achieve long-term profitability by improving our asset management.

The Offering

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

The Issuer	Kyobo Life Insurance Co., Ltd.
Securities	U.S.$500,000,000 3.95% Subordinated Capital Securities. The Securities have not been registered with the U.S. Securities and Exchange Commission (the "SEC"), and are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and inside the United States to qualified institutional buyers as defined under the Rule 144A ("QIBs") in reliance on Rule 144A.
Structuring Coordinator	J.P. Morgan Securities plc.
Joint Bookrunners and Joint Lead Managers	Citigroup Global Markets Inc., J.P. Morgan Securities plc, Nomura International plc and UBS AG, Hong Kong Branch.
Co-Manager	Kyobo Securities Co., Ltd.
Issue Date	July 24, 2017.
Initial Issuer Redemption Date	July 24, 2047.
Issuer Redemption Date	Unless previously redeemed or purchased and cancelled, the Issuer may at its option redeem the Securities, in whole but not in part, at their outstanding principal amount on the Initial Issuer Redemption Date and on each date that falls thirty, or a multiple of thirty, calendar years after the Initial Issuer Redemption Date (each such date together with the Initial Issuer Redemption Date, an "Issuer Redemption Date"); *provided* that, if the Securities are not redeemed at the option of the Issuer on any Issuer Redemption Date, the Securities will automatically be extended for 30 years from such Issuer Redemption Date; *provided* further that, if any Issuer Redemption Date would fall on a date that is not a Business Day, it will be postponed to the next Business Day.
Status of the Securities	The Securities constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves, *pari passu* with any Parity Obligations of the Issuer and in priority to the claims of holders of Junior Obligations of the Issuer. The rights and claims of the Securityholders are subordinated in the manner described below. The Securityholders will not have the benefit of any security interest.

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

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

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

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

Distribution Payment Dates .... Distributions shall be payable on the Securities semi-annually in arrear on January 24 and July 24 in each year with the first Distribution Payment Date falling on January 24, 2018 in respect of the period from, and including, the Issue Date to, but excluding, such first Distribution Payment Date.

Distribution Rate .... The Distribution Rate applicable to the Securities shall be:

(a) in respect of the period from, and including, the Issue Date to, but excluding, July 24, 2022 (the "Initial Reset Date," and such period, the "Initial Rate Period"), 3.95% per annum (the "Initial Distribution Rate");

(b) in respect of the period from, and including, the Initial Reset Date to, but excluding, July 24, 2027 (the "Step-Up Date"), a rate per annum equal to the sum of the Treasury Rate plus the Initial Spread (the "Initial Reset Distribution Rate"); and

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

Initial Spread	2.091% per annum.
Optional Cancellation of Distributions	Unless a Compulsory Distribution Payment Event has occurred, the Issuer may elect to cancel, in whole but not in part, payment of any Distribution otherwise scheduled to be paid on a Distribution Payment Date by giving notice to the Securityholders and the Fiscal Agent, as set forth in Condition 4.6 (*Optional cancellation of Distributions*). A "Compulsory Distribution Payment Event" will occur if, during the 12-month period ending on the tenth Business Day prior to such Distribution Payment Date, the Issuer has declared, paid or made any dividend, distribution or other payment in respect of, or redeemed or purchased, any Junior Obligations or Parity Obligations (other than any such payment, redemption or purchase that is mandatory pursuant to the terms thereof).
Mandatory Cancellation of Distributions	Notwithstanding that a notice of an optional cancellation may not have been given, if a Capital Deficiency Event subsists as at the tenth Business Day prior to any Distribution Payment Date, any Distribution which has accrued for the relevant Distribution Period will not be due or payable on such Distribution Payment Date and payment of such Distribution will be mandatorily cancelled, in whole but not in part. The Issuer will give notice of the cancellation of a Distribution to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, as further described in Condition 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*). "Capital Deficiency Event" means, as at the relevant date, (x) the Issuer being designated as an "insolvent financial institution" under subparagraph 2 of Article 2 of the Act on the Structural Improvement of the Financial Industry, as amended or modified from time to time, or (y) either a "management improvement recommendation," a "management improvement requirement" or an "management improvement order" has been issued by the Financial Services Commission of Korea (the "FSC") against the Issuer under the Articles 7-17, 7-18 and 7-19, respectively, or an "emergency measure" is imposed by the FSC against the Issuer under the Article 7-43, of the Regulation on Supervision of Insurance Business, as amended or modified from time to time.
Distributions Non-Cumulative	Distributions are non-cumulative. If the Issuer elects not to pay a Distribution in accordance with Condition 4.6 (*Optional cancellation of Distributions*), or is required not to pay a Distribution in accordance with Condition 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital*

	Deficiency Event), such Distribution will not be due and payable on the relevant Distribution Payment Date and shall not accumulate or be payable at any time thereafter. If any Distribution is not paid on a Distribution Payment Date pursuant to and in accordance with Condition 4.6 or 4.7, the right of Securityholders to receive such Distribution not paid will be lost, and the Issuer will have no obligation to pay such Distribution, whether or not any amount of Distribution is paid for any future Distribution Period, and the failure to pay such Distribution shall not constitute a default by the Issuer for any purpose.
Restrictions in the Case of a Payment Limitation	If, on any Distribution Payment Date, payment of a Distribution scheduled to be paid is not made in full pursuant to Condition 4.6 (*Optional cancellation of Distributions*) or 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*) or otherwise, the Issuer shall not: (a) declare, pay or make any discretionary dividends, distributions or other payments on, and will procure that no discretionary dividend, distribution or other payment is declared, paid or made on, any of its Junior Obligations or its Parity Obligations, save that such restriction shall not apply to payments in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants; or (b) redeem, reduce, cancel, buy-back or acquire for any consideration on a discretionary basis any of its Junior Obligations or its Parity Obligations (except, in relation to Parity Obligations, where such redemption, reduction cancellation or buy-back is made on a pro rata basis with a pro rata purchase by the Issuer of Securities), save that such restriction shall not apply to an exchange of any of its Parity Obligations for Junior Obligations or a repurchase or other acquisition of any securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants, in each case, until the next following Distribution Payment Date on which the Issuer pays in full the Distribution scheduled to be paid on such Distribution Payment Date.
No Claim by Holders for Distributions	No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to Condition 4.6 (*Optional cancellation of Distributions*) or 4.7 (*Mandatory cancellation of Distributions on the occurrence of a Capital Deficiency Event*). Accordingly,

	such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.
Redemption at the Option of the Issuer	Subject to the satisfaction of the Optional Redemption and Purchase Conditions, the Issuer may, on the Initial Reset Date and each Distribution Payment Date thereafter, upon giving a notice of redemption, redeem the Securities, in whole but not in part, at a redemption price equal to the principal amount of the Securities plus any accrued but unpaid Distributions to (but excluding) the date of redemption (other than any Distribution which has been cancelled as provided under the provisions set forth in Condition 4.6 or 4.7 (the "Optional Redemption Price"), as set forth in Condition 6.2 (*Optional redemption*).
Redemption for Gross-up Event	Subject to the satisfaction of the Optional Redemption and Purchase Conditions, if a Gross-Up Event has occurred and is continuing, the Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price. "Gross-Up Event" means on the occasion of the next payment due under the Securities, the Issuer has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of a relevant jurisdiction or any political subdivision of, or any authority in, or of, a relevant jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) on or after the Issue Date; and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.
Redemption for Regulatory Event..	Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of the Regulatory Event, the Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price. "Regulatory Event" means that, where the Securities have been recognised as regulatory capital of the Issuer in the FSC's calculation of the Issuer's regulatory capital ratios and, at a subsequent time, due a change of law, regulation or interpretation thereof, which change becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) after the Issue Date, there is more than an insubstantial risk that the Securities would not, or would no longer, be eligible, in whole or in part, to be included within the regulatory capital ratios of the Issuer.

Redemption for Accounting Event .... Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of the Accounting Event, the Issuer may, at any time upon giving a Redemption Notice, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

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

Redemption for Tax Deductibility Event .... Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Tax Deductibility Event, the Issuer may, at any time upon giving a notice of redemption, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

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

Optional Redemption and Purchase Conditions .... Any redemption of the Securities at the option of the Issuer (other than on an Issuer Redemption Date) is subject to the following conditions:

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

(b) either:

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

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

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

   The requirements set forth in clauses (a) and (b) above and the paragraph immediately above are hereinafter referred to as the "Optional Redemption and Purchase Conditions."

Taxation .... All payments (if any) of principal of, premium (if any) on, and Distributions on, the Securities by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer will pay Additional Amounts as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Securities in the absence of the withholding or deduction, subject to certain exceptions.

Form and Denomination	The Securities will be issued in registered form in denominations of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.
Use of Proceeds	The Issuer expects to use the net proceeds from the Offering, which are expected to be approximately US$496,300,000 (net of underwriting discounts and commissions but prior to deducting other offering expenses), for general corporate purposes.
Global Securities	The Securities will be initially represented by one or more global certificates in fully registered form without interest coupons (the "Global Securities"). The Global Securities will be deposited upon issuance with the custodian for The Depository Trust Company ("DTC") and registered in the name of DTC or its nominee. Beneficial interests in the global securities may be held only through DTC (or any successor clearing system that holds global securities) and its participants, including Euroclear Bank, S.A./N.V. ("Euroclear") and Clearstream Banking S.A. ("Clearstream").
Ratings	The Securities are rated "A3" by Moody's and "A-" by Fitch. A rating is not a recommendation to buy, sell or hold the Securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Governing Law	The Securities, the Deed of Covenant and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that the provisions of the Securities relating to subordination (Condition 3.2) shall be governed by Korean law.
Listing	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, the Securities will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in foreign currencies). Accordingly, the Securities are expected to be traded in a minimum board lot size of US$200,000.
Selling Restrictions	There are restrictions on the distribution of this offering circular and the making of solicitations pursuant hereto in certain jurisdictions, including, among others, the United States, the United Kingdom, Hong Kong, Singapore and Korea. See "Plan of Distribution" and "Transfer Restrictions."
Security Codes	

	CUSIP	ISIN
Rule 144A Securities	501555 AA4	US501555AA46
Regulation S Securities	Y4481P AA5	USY4481PAA58

SUMMARY FINANCIAL AND OPERATING DATA

The following tables set forth our summary financial and operating data. Our selected financial data as of and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from our annual consolidated financial statements included elsewhere in this offering circular. Our selected financial data as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 set forth below has been derived from our unaudited condensed consolidated interim financial statements included elsewhere in this offering circular. It is important that you read our selected financial and operating data set forth below in conjunction with our financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other historical financial information appearing elsewhere in this offering circular. Our financial statements included in this offering circular have been prepared in accordance with K-IFRS, which differ in certain significant respects from generally accepted accounting principles in other countries, including the United States.

Summary Statements of Comprehensive Income Data

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating revenue:					
Premium income	₩ 8,078	₩ 7,836	₩ 7,901	₩ 2,049	₩ 1,956
Reinsurance income	87	86	93	23	25
Interest income	2,636	2,650	2,630	657	636
Gain on valuation and disposal of financial instruments	673	909	911	545	1,330
Gain on foreign currency transaction	290	561	637	54	80
Fees and commission income	147	234	218	54	50
Dividend income	178	266	301	105	115
Rental income	100	97	96	24	23
Separate account commission earned	754	799	821	211	207
Separate account income	112	128	124	42	59
Other operating income	651	688	710	183	190
Total operating revenue	13,706	14,255	14,442	3,947	4,670
Operating expenses:					
Provision for liabilities under insurance contracts	4,396	3,863	3,896	988	787
Insurance claims paid	4,676	4,994	5,222	1,302	1,404
Reinsurance premium expenses	92	91	96	23	26
Insurance operating expenses	876	830	864	208	197
Amortization of deferred acquisition costs	910	867	844	220	202
Investment administrative expenses	117	105	107	23	24
Interest expenses	132	130	152	45	26
Loss on valuation and disposal of financial instruments	743	1,255	1,288	301	302
Loss on foreign currency transaction	67	94	158	266	1,077
Separate account commissions paid	26	26	27	8	6
Separate account expenses	112	128	124	42	59
Other operating expenses	905	957	978	244	261
Total operating expenses	13,052	13,340	13,755	3,669	4,370

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating income	654	915	687	278	300
Non-operating income	33	23	53	16	12
Non-operating expenses	57	61	27	8	64
Net Income before income tax expenses	629	877	712	287	248
Income tax expense	112	233	169	68	58
Net income	₩ 517	₩ 644	₩ 543	₩ 219	₩ 190
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Gain (loss) on valuation of available-for-sale financial assets	170	1	(147)	89	(1)
Loss on valuation of held-to-maturity financial assets	(6)	(5)	14	(1)	(2)
Gain (loss) on valuation of investments in associates	0	(0)	(1)	(0)	1
Gain (loss) on valuation of derivative instruments	33	9	28	(7)	(1)
Other comprehensive gain (loss) in separate accounts	23	(4)	(15)	13	5
Foreign currency translation adjustments for foreign operations	0	(0)	1	(1)	(3)
Items that will not be reclassified to profit or loss:					
Gain (loss) on revaluation of property and equipment	12	3	(1)	4	4
Remeasurement gain (loss) related to defined benefit liabilities	(15)	(3)	21	(0)	(1)
Total comprehensive income	₩ 735	₩ 645	₩ 445	₩ 315	₩ 192
Earnings per share (in Won)					
Basic and diluted earnings per share	₩ 24,646	₩ 29,651	₩ 25,097	₩ 10,215	₩ 8,837

Summary Statements of Financial Position Data

	As of December 31,			As of March 31,
	2014	2015	2016	2017
		(in billions of Won)		
Assets				
Cash and due from banks	₩ 1,444	₩ 1,729	₩ 1,377	₩ 1,652
Financial assets designated at fair value through profit or loss	312	347	336	235
Trading assets	4,502	4,087	3,951	4,047
Derivative assets	179	191	242	581
Available-for-sale financial assets	22,148	22,683	21,138	20,988
Held-to-maturity financial assets	19,283	22,860	27,188	26,978
Loans	16,372	16,820	18,463	18,308
Other receivables	1,318	1,646	1,696	1,875
Investments in associates	106	106	90	81
Investment property	1,208	1,169	1,136	1,129
Property and equipment	1,330	1,350	1,346	1,344
Intangible assets	74	62	52	53
Deferred acquisition costs	2,057	1,959	1,787	1,743
Current tax assets	14	13	58	38
Deferred tax assets	5	7	5	6
Other assets	147	109	146	202
Non-current assets held for sale	2	–	–	5
Separate account assets	15,263	16,871	17,673	18,349
Total assets	₩ 85,762	₩ 92,008	₩ 96,684	₩ 97,614
Liabilities				
Liability under insurance contracts	₩ 55,743	₩ 59,652	₩ 63,668	₩ 64,479
Policyholders' equity adjustment	592	567	464	449
Financial liabilities designated at fair value through profit or loss	1,681	1,613	1,504	1,668
Trading liabilities	289	211	428	536
Derivative liabilities	554	779	1,118	398
Borrowings	2,297	2,094	1,451	1,372
Other financial liabilities	1,248	1,473	1,412	1,443
Provisions	23	27	19	19
Defined benefit obligation	65	62	26	44
Current tax liabilities	43	56	2	2
Deferred tax liabilities	354	356	350	387
Other liabilities	247	243	252	313
Separate account liabilities	15,670	17,351	18,129	18,527
Total liabilities	78,805	84,485	88,822	89,638
Equity				
Capital stock	103	103	103	103
Capital surplus	438	437	436	436
Capital adjustments	(20)	(20)	(16)	(15)
Accumulated other comprehensive income	1,116	1,115	1,015	1,018
Retained earnings	5,017	5,552	5,962	6,066
Equity attributable to owners of the Controlling Company	6,654	7,186	7,498	7,607
Non-controlling interests	304	337	364	369
Total equity	6,957	7,523	7,863	7,976
Total equity and liabilities	₩ 85,762	₩ 92,008	₩ 96,684	₩ 97,614

Operating Data (Including Separate Accounts)

	As of or for the Year Ended December 31,			As of or for the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(on a standalone basis) (in billions of Won, except as otherwise indicated)				
Total policies in force (in thousands)	9,117	9,248	9,264	9,283	9,283
Number of new policies sold (in thousands)	917	893	843	221	230
Gross premiums [1][2]	₩ 12,299	₩ 12,609	₩ 12,242	₩ 3,012	₩ 2,962
First year premiums [1][2]	3,256	3,230	2,671	751	658
First year regular payment premiums	2,101	2,646	2,110	551	489
First year single payment premiums	1,155	584	562	204	169
In-force face amount growth ratio[3]	2.8%	2.2%	0.5%	0.5%	0.0%
New policy growth ratio[4]	15.0%	14.0%	12.1%	3.5%	3.1%
Lapse and surrender ratio[5]	8.4%	7.8%	7.9%	2.2%	2.2%
Policy persistency ratio[6]:					
13-month	79.5%	80.0%	80.0%	81.2%	79.2%
25-month	68.3%	67.4%	67.5%	67.7%	69.6%
Operating expense ratio[7]	14.2%	12.9%	12.8%	12.9%	12.4%
Risk-based capital adequacy ratio [8]	271.3%	259.8%	233.9%	262.8%	234.5%
Return on equity[9]	7.7%	8.4%	6.6%	11.0%	9.6%
Return on assets [10]	0.6%	0.7%	0.5%	0.9%	0.8%

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

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

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

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

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

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

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

(8) Calculated in accordance with the applicable requirements of the FSS. See "Regulation and Supervision – Risk-Based Supervision of Insurance Companies – Risk-Based Capital Adequacy Requirements." For information regarding our available capital for purposes of calculating our statutory risk-based capital adequacy ratio as of March 31, 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk-Based Capital Adequacy Requirements."

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

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

RISK FACTORS

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

Risks Relating to Our Business

There is significant competition in the industries in which we operate, and we may experience declines in our market share and profitability as a result.

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

Historically, the Korean life insurance industry has been dominated by Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and us, which together had a combined market share of 46.2% of total gross premiums in 2016 and 45.5% in the first quarter of 2017, according to data from the Korea Life Insurance Association. We had the third largest market share in the industry with a 10.2% share of total gross premiums in 2016 and 10.4% in the first quarter of 2017. We also compete with small- to mid-sized domestic life insurance companies, such as Mirae Asset Life Insurance Co., Ltd., ING Life Insurance Korea, Ltd., Shinhan Life Insurance Co., Ltd., Heungkuk Life Insurance Co., Ltd. and Nonghyup Life Insurance Co., Ltd., as well as Korean affiliates of foreign life insurance companies, such as MetLife Insurance Company of Korea, Ltd., Tong Yang Life Insurance Co., Ltd. and Prudential Life Insurance Company of Korea, Ltd., whose parent companies may have greater experience and resources in their respective home markets. Furthermore, in specific areas such as accident and health insurance, savings insurance and variable insurance, our products also compete with those offered by property and casualty insurance companies, commercial banks, securities companies and asset management companies. In addition, risk protection products with insurance features are also sold by the Korea Post through its extensive nationwide branch network. Certain of our competitors are larger in terms of asset size and customer base, have greater financial resources, offer a broader range of products or have access to a more extensive distribution network than we do. Moreover, a number of our competitors are affiliated with large Korean business or financial groups, which may provide a competitive advantage to the extent that they are able to take advantage of such affiliation, including through cross-promotion opportunities and access to the existing customer base of their affiliates.

In our securities business, Kyobo Securities competes primarily with mid-sized securities companies, such as Daishin Securities Co., Ltd., KB Securities Co., Ltd., Eugene investment & Securities Co., Ltd., HMC Investment Securities Co., Ltd., KTB Investment & Securities Co., Ltd. and IBK Securities Co., Ltd. In addition, in particular areas such as investment banking and asset management, Kyobo Securities also competes with large securities companies, such as Samsung Securities Co., Ltd., NH Investment & Securities Co., Ltd. and Korea Investment & Securities Co., Ltd., as well as securities companies affiliated with other life insurance companies, such as Mirae Asset Daewoo Co., Ltd. Kyobo Securities' competition is based on a number of factors, including products and services, innovation, transaction execution, reputation, brand recognition and price.

Regulatory changes have also affected, and will continue to affect, the level of competition in the Korean life insurance and securities industries. For example, certain amendments to the Insurance Business Act adopted in 2003 and its related enforcement decree clarified that property and casualty insurance companies may sell products that offer death benefits in the case of death arising from illness, subject to certain limitations on liability. In addition, beginning in 2008, the FSS has permitted limited cross-selling of life insurance and property and casualty insurance products by financial planners working for life insurance or property and casualty insurance companies. See "Regulation and Supervision – Sales – Overlap of Products with General Insurance Companies." Property and casualty insurance companies are currently not permitted to offer certain whole life insurance, term life insurance, annuity or variable insurance products, but future deregulation may further intensify competition with property and casualty insurance companies.

Furthermore, a number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including the acquisition of Kumho Life Insurance Co., Ltd. by Korea Development Bank in 2010, the acquisition of Woori Aviva Life Insurance Co., Ltd., first by NongHyup Financial Group Inc. in 2014 and subsequently by DGB Financial Group in 2015, the acquisition of a controlling stake in Tong Yang Life Insurance Co., Ltd. in 2015 and the acquisition of Allianz Life Insurance in 2016, each by China's Anbang Insurance Group, and the acquisition of PCA Life Insurance Co., Ltd. by Mirae Asset Life Insurance Co., Ltd. in 2017. We expect that changes in the competitive landscape of the life insurance industry, as well as the financial industry generally, will continue. Such changes may significantly increase the customer base and operating scale of some of our competitors. Certain of the financial institutions resulting from these changes may, by virtue of their increased size and business scope, provide greater competition for us.

In our bookstore business, Kyobo Book Center primarily competes with other large-scale bookstore chains, including Youngpoong Bookstore and Bandi & Luni's. Kyobo Book Center also competes with online retailers of books. Competition is based on a number of factors, including breadth and depth of available book content, price, accessibility and attractiveness of stores, brand awareness and reputation.

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

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

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

In addition, effective December 31, 2016, the FSS increased the confidence level applied in determining the credit risk amount for calculating the statutory risk-based capital adequacy ratio of insurance companies from 97% to 99% and required such statutory risk-based capital adequacy ratio to be calculated on a consolidated basis. Such changes in calculation method have had a negative impact on our risk-based capital adequacy ratio. In part due to such regulatory changes, our risk-based capital adequacy ratio decreased from 259.8% as of December 31, 2015 on a standalone basis to 233.9% as of December 31, 2016 on a consolidated basis and was 234.5% as of March 31, 2017 on a consolidated basis. The FSS has also announced that it plans to introduce a new regulatory solvency regime for insurance companies based on the International Capital Standard (the “ICS”) developed by the International Association of Insurance Supervisors, which would be similar in substance to the Solvency II Directive of the European Union. The Solvency II Directive, which has been in effect in the European Union since January 1, 2016, is a comprehensive program of regulatory requirements for insurance companies, covering authorization, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency. Under the FSS’ planned new solvency regime in Korea, among other things, insurance contract liabilities are expected to be measured based on market value, rather than book value, which would require a number of life insurance companies in Korea with a large portfolio of high guaranteed rate of return products, including us, to obtain additional capital to meet their capital adequacy requirements. As an interim measure, the FSS also recently announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies. Such changes implemented in June 2017 included increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation to 30 years (from the current maximum of 20 years), as well as reducing the coefficient applied in calculating interest rate risk from 1.85% to 1.50%, and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies.

Although the details of the new solvency regime in Korea have not yet been finalized and are likely to be further amended in the future, if an insurance company’s interest-earning assets have a shorter duration than that of its interest-bearing liabilities, its interest rate risk for purposes of calculating its capital adequacy ratio may increase as a result of such new solvency regime. The interest-earning assets of most Korean life insurance companies, including us, have a shorter duration than that of its interest-bearing liabilities. There is no guarantee that we will not be required to raise additional capital to sustain our risk-based capital adequacy ratio above the required level in connection with the future implementation of the new solvency regime. Any material deterioration in our risk-based capital adequacy ratio could change our customers’ or our business counterparties’ perception of our financial health, which in turn could adversely affect our sales, earnings and operations. Furthermore, while our risk-based capital adequacy ratio is currently significantly above the required level, if we grow rapidly or if our asset quality deteriorates in the future, we may need to raise additional capital to meet our capital adequacy requirements. If we are not able to raise any additional required capital, we may be forced to reduce the growth or scale of our business.

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

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

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

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

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

- interpretation of the requirements and potential operational difficulties when applying such requirements;
- data collection, storage and analysis;
- integration of existing systems and processes with new actuarial systems;
- increased finance, actuarial and risk management coordination;

- implementation of new business strategies in preparation for IFRS 17 (including adjusting the duration of interest-earning assets and interest-bearing liabilities and our asset and liability management policies) while managing the impact of IFRS 17 on our risk—based capital adequacy ratio under the applicable Korean solvency regime;

- adjustment to a new Korean regulatory solvency regime, which is expected to be based on new global insurance capital standards and implemented around the time of the effective date of IFRS 17 (see "— We may be required to raise additional capital or reduce our growth or business scale if our risk-based capital adequacy ratio deteriorates or the applicable capital requirements change in the future."); and

- changes to other aspects of our business, such as product design, remuneration policies and business planning.

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

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

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

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

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

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

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

Prior to 1998, like other major insurance companies in Korea, we offered savings insurance policies, fixed annuities and other products with relatively high guaranteed rates of return, primarily as a result of the then-prevailing high market interest rates. As market interest rates in Korea subsequently decreased, the actual rates of return on our life insurance operations' general account investments intended to support our obligations with respect to such products declined below the assumed rates of return we used in pricing such products. The difference between the guaranteed return rates on such products and market interest rates resulted in a negative spread on such products, which has adversely affected our overall profitability. As of December 31, 2014, 2015 and 2016 and March 31, 2017, our premium reserves, calculated in accordance with the guidelines of the FSS, for in-force policies with guaranteed rates of return equal to or in excess of 6.0% per annum represented 35.2%, 33.1%, 31.1% and 30.7%, respectively, of our total general account premium reserves. In comparison, our average premium reserves as a percentage of our total in-force policies has continued to decline from 5.21% per annum as of December 31, 2014 to 4.90% as of December 31, 2015, 4.67% as of December 31, 2016 and 4.66% as of March 31, 2017, which is calculated as the average cost of period-end reserves.

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

The business and performance of our life insurance operations are dependent on the productivity and effectiveness of our distribution and marketing channels.

We have historically relied on our financial planner channel as the primary channel for the distribution and marketing of our life insurance products. Although we have taken steps to diversify our distribution and marketing platform, we expect to continue to depend on our financial planner sales force for a substantial portion of our total life insurance sales. As of March 31, 2017, we had approximately 17,678 financial planners and, on a standalone basis, 45.2%, 60.1%, 52.6% and 50.5% of our first year premiums (including separate account premiums) in 2014, 2015 and 2016 and the first quarter of 2017, respectively, were attributable to products sold through our financial planners. In addition, because of differences in productivity, a relatively small percentage of our financial planners is responsible for a disproportionately high percentage of our life insurance product sales. See "Business — Marketing and Distribution Channels — Financial planners."

We have experienced, and expect to continue to experience, turnover among our financial planners, including experienced financial planners. Significant competition exists in the Korean insurance industry for experienced financial planners with demonstrated ability to successfully sell insurance products. If we are unable to retain, motivate and manage our core group of highly productive financial planners, or if we are unable to recruit and train productive new financial planners, our business and performance could be materially and adversely affected. We compete for financial planners with other life insurance companies primarily on the basis of our reputation, compensation and benefits, product offerings, and training and support services. Competition for financial planners from other life insurance companies, as well as property and casualty insurance companies, large-sized independent insurance sales agencies (referred to as "general agencies") and other institutions may also require us to enhance the compensation of our financial planners, which would increase our operating costs and reduce our profitability. Although we have not had difficulty in attracting and retaining productive financial planners in the recent past, we cannot guarantee that we will continue to be able to do so in the future.

In addition to the financial planner channel, we operate alternative distribution and marketing channels in our life insurance business. In particular, we have entered into bancassurance arrangements with leading commercial banks, securities companies and savings banks in Korea, pursuant to which they market and distribute our life insurance products through their branches. In addition, we have entered into marketing arrangements with leading individual agencies and general agencies in Korea for the sale of a wide range of our life insurance products. We also utilize our direct marketing channel to distribute our life insurance products through telemarketing and marketing on home shopping television networks, as well as through the Internet. On a standalone basis, first year premiums generated from our bancassurance, agency and direct marketing channels, in the aggregate, represented 40.3%, 27.6%, 36.5% and 34.5% of our first year premiums (including separate account premiums) in 2014, 2015 and 2016 and the first quarter of 2017, respectively.

If we are unable to retain and build on our core group of highly productive financial planners or if we fail to continue to successfully utilize our bancassurance, agency and direct marketing channels to supplement our financial planner channel, our business, results of operations and financial condition could be materially and adversely affected.

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

We hold a significant amount of debt securities, including as part of the general account investment portfolio of our life insurance operations. As of March 31, 2017, Won 16,493 billion of debt securities classified as available-for-sale securities, and we also held Won 26,978 billion of held-to-maturity financial assets consisting primarily of bonds. The market value of these securities could decline significantly due to various factors, including increases in interest rates or a deterioration in the financial condition of any particular issuer or of the Korean or global economy in general. For example, general increases in market interest rates in Korea in the fourth quarter of 2016 had a negative impact on the value of our portfolio of debt securities, which in turn reduced unrealized gains in other comprehensive income within our total equity and resulted in a decrease in our risk-based capital adequacy ratio. See "— Changes in interest rates may reduce the profitability of our spread businesses and the return on our investments, as well as negatively impact our risk-based capital adequacy ratio."

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

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

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

The largest portion of our life insurance business' general account investment portfolio has traditionally consisted of domestic debt securities, which accounted for 42.3% of our life insurance business' total general account investment assets as of March 31, 2017 on a standalone basis. In recent years, we have started to pursue a strategic asset allocation plan with an increased emphasis on investing in overseas securities (including foreign-currency denominated bonds, beneficiary certificates and structured securities) compared to previous years, which may expose us to additional and different risks compared to our historical investment mix concentrated on domestic debt securities and loans. On a standalone basis, the portion of our life insurance business' general account investment assets accounted for by overseas securities increased from 9.1% as of December 31, 2014 to 17.9% as of March 31, 2017. Our securities business also engages in proprietary investing and trading in overseas securities. Investing and trading in overseas securities require more specialized investment and risk management expertise, which we may not be able to develop and maintain. Furthermore, the market value of the overseas securities in which we decide to invest could decrease significantly due to various factors, including declines in foreign stock markets, increases in global interest rates, a lack of liquidity, a deterioration in the operating performance or financial condition of particular issuers or of the overseas local or global economy in general. Accordingly, our increased investments in overseas securities may lead to trading and valuation losses, which could adversely affect our results of operations and financial condition.

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

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

We establish and carry, as a liability, policy reserves based on the greater of statutory reserves and actuarial estimates of how much we will need to pay for future benefits and claims on our in-force life insurance policies. Our earnings depend significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our life insurance products and establishing the liabilities in our financial statements for our obligations for future life insurance policy benefits and claims. We establish the liabilities for obligations for future life insurance policy benefits and claims based on the expected payout of benefits, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. These assumptions are based on our previous experience and data published by the KIDI, as well as judgments made by our management. These assumptions and estimates may deviate from our actual experience due to various factors that are beyond our control, including as a result of unexpected changes in the scope of coverage by the Korean national health insurance program or unfavorable re-interpretations of our life insurance policy terms by Korean courts or regulators, as well as advancements in health care that result in increased life expectancy and early detection of diseases. For example, as a result of an unfavorable re-interpretation by the FSS and the Supreme Court of Korea of the scope of coverage under an accidental death benefit rider, we established premium reserves of Won 63 billion relating to overdue death benefits (including related interest expenses) in 2016 in respect of certain suicide claims. As of March 31, 2017, the remaining amount of such premium reserves was Won 49 billion. See "— We may become subject to legal claims and regulatory actions which, if significant, could harm our business, performance and reputation." In addition, the occurrence of unexpected catastrophic mortality events in Korea, including pandemics, natural or man-made disasters or terrorist attacks, may result in claims that significantly exceed our expectations. As a result, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the life insurance policy liabilities will grow to the level we assume prior to payment of benefits or claims. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future.

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

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

We utilize reinsurance to mitigate some of our insurance risks with respect to various life insurance products. Reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers. Our aggregate reinsurance expenses amounted to Won 91 billion, Won 91 billion and Won 96 billion in 2014, 2015 and 2016, respectively, and Won 23 billion and Won 26 billion in the first three months of 2016 and 2017, respectively. Our reinsurers may be unable or unwilling to pay the reinsurance benefit amounts owed to us currently or in the future or on a timely basis. A reinsurer's insolvency or its inability or unwillingness to make payments under the terms of its reinsurance agreement with us could have an adverse effect on our results of operations, financial condition and cash flows.

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

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

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

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

Furthermore, our ability to generate profits on life insurance products depends in part on the returns on the general account investments supporting our obligations under these products, and the value of specific investments may fluctuate substantially depending on conditions in the global economy generally and particularly in the Korean and U.S. fixed income, real estate and equity markets. Changes in debt or equity price levels, interest rates, real estate prices or other market fluctuations and volatility may affect the value of our investment positions and the nature and level of our investment activities. The value of the Won relative to major foreign currencies in general, and the U.S. dollar, the Euro and the Japanese Yen in particular, has fluctuated widely in recent years. Continued exchange rate volatility may result in foreign exchange losses for us. In addition, in our securities business, changes in stock prices or interest rates affect the value of our customers’ portfolios and their investing activities, which in turn may affect the amount of brokerage commissions we earn from executing buy and sell orders as well as fees we earn for managing assets. Changes in financial market or economic conditions may also lead to increases or decreases in the number and size of transactions for which we provide underwriting, merger and acquisition advisory and other services. Fees that we earn for our investment banking services would be directly impacted by the number and size of the transactions in which we participate and would therefore be affected by market upturns or downturns.

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the political scandals and ongoing corporate investigations in Korea, the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment and lower consumer confidence, the economic outlook in the second half of 2017 and for the foreseeable future remains uncertain.

We may experience increases in delinquencies in our loan portfolio.

As part of the general account investment activities of our life insurance operations, we offer loans, including policy loans, unsecured credit loans and loans secured by real estate and third party guarantees, to qualified retail and institutional borrowers. In connection with our securities business, we also provide margin loans and various types of other brokers' loans (including non-margin loans that are secured by securities in a customer's account but do not restrict the use of the proceeds of the loan to securities purchases) to qualified retail and institutional investors. On a standalone basis, our loan portfolio increased from Won 15,748 billion as of December 31, 2014 to Won 17,768 billion as of March 31, 2017, of which Won 15,465 billion were classified as neither past due nor impaired as of December 31, 2014 and Won 17,645 billion were classified as neither past due nor impaired as of March 31, 2017. Future growth in our loan portfolio, as well as changes in economic conditions affecting our borrowers, may lead to increasing delinquencies and a deterioration in asset quality, which would require us to increase our loan loss provisions and charge-offs and would adversely affect our results of operations and financial condition.

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

We offer variable insurance products that generally provide a return linked to an underlying investment portfolio designed by the policyholder while also providing a guaranteed minimum protection benefit and/or a guaranteed minimum accumulation benefit, predetermined by the contract, in return for periodic payment of fixed premiums over a predetermined period. We pool premiums paid by our variable insurance policyholders and purchase interests in investment funds among which our policyholders are able to allocate and adjust their investment portfolio, and distribute the returns from such investment portfolio to the beneficiaries upon the death of the insured person or to the policyholder upon the maturity of the contract or the predetermined accumulation date. We earn fee income based upon the estimated fair value of the assets under management.

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

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

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

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

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

Derivative transactions may expose us to unexpected risk and potential losses.

We engage in derivative transactions for the purpose of hedging our exposures as part of our risk management activities, as well as our proprietary trading and investment activities in our securities business. Derivative contracts create exposure to the instruments or measures underlying such contracts and may lead to unexpected losses. Accordingly, in the event that market measures such as interest rates, exchange rates or securities prices move in directions that we do not anticipate, we may experience losses on such contracts.

We are also party to derivative transactions that require us to deliver to the counterparty the underlying security or other obligation in order to receive payment. In a number of cases, we do not hold the underlying security or other obligation and may have difficulty obtaining, or be unable to obtain, the underlying security or other obligation through the physical settlement of other transactions. As a result, we are subject to the risk that we may not be able to obtain the security or other obligation within the required contractual time frame for delivery. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to us.

Derivative transactions also expose us to the credit risk of transaction counterparties. Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties on a timely basis. While the transaction remains unconfirmed, we are subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce the contract.

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

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

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

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

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

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

The growth of electronic commerce and the introduction of new technologies are changing our businesses and presenting us with new competitive challenges. For example, an increasing number of life insurance policies are being sold directly online by small- and mid-sized insurance companies without the use of more traditional distribution channels such as financial planners or general agencies and at a lower cost to customers. Furthermore, securities and derivatives transactions are increasingly occurring electronically, both on our own systems and through other alternative trading systems, and the increased use by our customers of low-cost electronic trading systems has resulted in a reduction in brokerage commissions in our securities business. In addition, our bookstore business faces significant competition from online retailers, some of which may have competitive advantages over us in terms of the range and pricing of merchandise.

We expect that the trend toward growth of electronic transactions will continue, and we have invested significant resources into the development of online and mobile business platforms in recent years. For example, we established Kyobo Life Planet Life Insurance, the first life insurance company in Korea to directly market and sell life insurance products exclusively online, in December 2013 and continuously seek to expand and upgrade our mobile insurance and securities applications and websites. We have also expanded the operations of our online bookstore. However, there is no assurance that our online and mobile business platforms will remain competitive or that they will yield an adequate return on our investments.

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

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

In the past, some of the litigation and regulatory proceedings to which we became subject, particularly those relating to customer claims in connection with certain misstated or ambiguous terms under our standard life insurance policy contracts, led to significant payments by us. For example, a clause in the standard terms of the accidental death benefit rider (the “ADB Rider”) used by practically all Korean life insurance companies before 2005 had exempted a life insurance company from its obligation to pay accidental death benefits for suicide but with a proviso that limited the availability of such exemption to a period of two years from the subscription date of the relevant insurance policy.

Since suicide was not included in the definition of “accident” under the standard terms of the ADB Rider, we believed that this exemption clause was inadvertently included in the standard terms of the ADB Rider. In light of the above, we revised this exemption clause in the standard terms of the ADB Rider in April 2005. As the revision to the standard terms of the ADB Rider did not apply retroactively to insurance products sold before the revision, disputes arose between Korean life insurance companies, including us, and the claimants as to whether life insurance companies were contractually required to pay accidental death benefits for suicides that occurred more than two years after the subscription date of the relevant insurance policies. In May 2016, the Supreme Court of Korea ruled against another life insurance company, in a case posing the same issue, requiring it to pay accidental death benefits for such suicide cases under the standard terms of the ADB Rider used prior to the deletion of the relevant exemption clause. In September 2016, the Supreme Court further ruled that a life insurance company was not required to pay accidental death benefits for suicide cases if the statute of limitations with respect to the applicable claims had expired. However, notwithstanding such Supreme Court ruling, the FSS determined that the life insurance companies at issue, including us, violated the applicable insurance regulations by failing to pay accidental death benefits for the relevant suicide cases on a timely basis, irrespective of the expiration of the statute of limitations. Based on such determination, in May 2017, the FSS imposed a regulatory sanction on us for such delay, restricting us from selling life insurance products with accidental death benefits for one month, which also had the consequence of restricting us from obtaining the requisite FSS approval to become a new large shareholder of other non-bank financial companies for three years. Such sanction by the FSS is intended to be comprehensive and final, and we expect no further related sanctions from the FSS.

As of December 31, 2016, we had established Won 63 billion of premium reserves to satisfy all applicable claims made to date involving such suicide cases based on our insurance policies with accidental death coverage sold between January 1994 and March 2005 and paid out Won 6 billion and Won 14 billion to the beneficiaries of applicable insurance policies in 2016 and the first three months of 2017, respectively, in connection with such claims. As of March 31, 2017, the remaining premium reserves relating to applicable claims made to date involving such suicide cases based on our insurance policies with accidental death coverage amounted to Won 49 billion. Although there may be additional future claims involving suicide cases based on such insurance policies sold during the relevant period, we have not established any reserves for the costs of such potential future claims. There can be no assurance that we will not face similar issues again in the future, where we may be required to pay claims that were not anticipated at the time we issued our life insurance policies, or that courts and regulatory authorities will agree with our interpretation of the scope of coverage under such policies.

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

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

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

Our performance depends to a large extent on favorable labor relations with our employees. As of March 31, 2017, 2,748 of our employees were members of our three labor unions, and our relationship with these and other employees is generally governed by a collective bargaining agreement. We negotiate a collective bargaining agreement every two years and annually negotiate a wage agreement. Our current collective bargaining agreement is scheduled to expire in 2018. We also operate a Joint Labor-Management Council, which consists of seven of our employees and seven members of our management and discusses employee welfare and benefits issues on an annual basis and more often as necessary. Although we believe that our relations with our employees are generally good, there can be no assurance that new collective bargaining and wage agreements will be negotiated or consultations will take place without discord with our labor unions or on terms satisfactory to us. If we are unable to negotiate successfully with our labor unions, we may become subject to union-initiated work stoppages, including strikes.

From time to time we may also become subject to demands, claims or legal actions brought by our employees or our labor unions acting on their behalf. Any significant increase in labor and labor-related legal costs, deterioration of employee relations, slowdowns or work stoppages, as well as our failure to attract and retain qualified employees, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our business, reputation, results of operations and financial condition.

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

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

- engaging in misrepresentation or fraudulent activities when marketing or selling life insurance or investment products to customers;
- defective sales of life insurance or investment products due to failure to adequately explain product information and related risks to customers, including omission of information deemed material to making a purchasing decision;
- encouraging or advising customers to omit or misrepresent material information or developments, which could undermine our insurance underwriting procedures and practices;
- hiding unauthorized activities, resulting in unknown and unmanaged risks or losses; or
- otherwise not complying with applicable laws, regulatory guidance or policies, or our internal policies or procedures.

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

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

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

Risks Relating to Government Regulation and Policy

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

Our operations are subject to the Korean Commercial Code and its regulations. Our life insurance business is further regulated by the Insurance Business Act and its regulations, including the Regulation on Supervision of Insurance Business, while our securities business is subject to the Financial Investment Services and Capital Markets Act and its regulations. We are regulated and supervised principally by the FSC and its administrative body, the FSS, and face the risk of significant intervention by regulatory authorities. New laws or regulations or changes in enforcement of existing laws or regulations applicable to our operations or those of our agents may also adversely affect our business. Regulatory changes could lead to business disruptions, increased competition, could require us to change certain of our business practices and could expose us to additional costs and liabilities as well as reputational harm. For example, the Insurance Business Act was amended in July 2010, as a result of which insurance companies became subject to stricter regulations on insurance product solicitation and customer product suitability assessment requirements. In particular, such amendments to the Insurance Business Act introduced certain requirements relating to advertisement of insurance products, including, among others, certain mandatory disclosure as well as certain procedures to be complied with by insurance companies in their advertising activities. Moreover, in March 2014, in response to incidents of large-scale leakages of customer data that were discovered in January 2014, regulators established a comprehensive policy designed to prevent the recurrence of customer data leaks in the financial industry, pursuant to which we are required to distinguish between mandatory information and optional information when collecting customer information. Our operations are also subject to the risk of new tax rules and regulations that may adversely affect the tax treatment of insurance premiums or benefits for policyholders, which can lead to a decrease in sales of the affected insurance products, as well as an increase in the level of surrenders and withdrawals. For example, the recently amended Income Tax Law (amended December 20, 2016) and its enforcement decree (amended February 3, 2017), which are applicable to insurance policies issued on or after April 1, 2017, reduced the amount of maximum cumulative premiums of single payment premium savings insurance products that could qualify for a tax exemption from Won 200 million per person to Won 100 million per person. In addition, such amendments established a maximum limit of Won 1.5 million per person per month for the monthly premiums of regular (monthly) payment premium savings insurance products that could qualify for a tax exemption, which previously were not capped. Our business and results of operations could be materially and adversely affected by these and similar new developments in applicable tax laws and regulations. For a discussion of the principal areas of regulation to which our businesses are subject, see "Regulation and Supervision."

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

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

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

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

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

Risks Relating to Korea

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

We are incorporated in Korea and substantially all of our operations are conducted in Korea. As a result, we are subject to economic, political, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

- declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;

- continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, including in the wake of a referendum in the United Kingdom in June 2016 to exit from the European Union;

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;

- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the ongoing controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States commencing in March 2017 and the ensuing economic and other retaliation measures imposed by China against Korea);

- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

- the recent impeachment and dismissal of former President Park Geun-hye and the resulting social unrest in Korea, as well as related investigations of large Korean business groups and their senior management for bribery, embezzlement and other possible misconduct;

- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;

- social and labor unrest;

- further decreases in the market prices of Korean real estate;

- the economic impact of any pending or future free trade agreements;

- a decrease in tax revenue and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

- financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies (including those in the shipbuilding and shipping sectors), their suppliers or the financial sector;

- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

- geo-political uncertainty and the risk of further attacks by terrorist groups around the world;
- the occurrence of severe health epidemics in Korea or other parts of the world, such as the Middle East Respiratory Syndrome outbreak in Korea in 2015;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea (such as the sinking of the Sewol ferry in 2014, which significantly dampened consumer sentiment in Korea) or its major trading partners;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the supply of oil or sudden increase in the price of oil;
- political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

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

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

- From time to time, North Korea has conducted ballistic missile tests. In February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program and it conducted additional ballistic missile tests in June 2016, a submarine-launched ballistic missile test in August 2016 and a series of intermediate-range ballistic missile tests in the first half of 2017. In response, the United Nations Security Council issued unanimous statements condemning North Korea and agreeing to continue to closely monitor the situation and to take further significant measures.
- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 and February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long-range rocket launch in February and March 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the sanctions applicable to North Korea, while the United States and the European Union also imposed additional sanctions on North Korea. In September 2016, North Korea conducted a fifth nuclear test, claiming to have successfully detonated a nuclear warhead that could be mounted on missiles, which claim has not been independently verified.

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

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

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

There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations.

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

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

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

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

We are incorporated in Korea, and it may be more difficult to enforce judgments of U.S. courts.

We are a corporation with limited liability organized under the laws of Korea. Most of our directors, executive officers and certain other persons named in this offering circular are non-U.S. residents, and all or a significant portion of the assets of our directors, executive officers and certain other persons named in this offering circular and most of our assets are located or registered outside the United States. As a result, when compared to a U.S. company, it may be more difficult for investors to effect service of process in the United States upon us or to enforce against us, our directors or executive officers, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal or state securities laws of the U.S. or similar judgments obtained in other courts outside Korea. There is doubt as to the enforceability in Korean courts, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal and state securities laws of the United States.

Risks Relating to the Securities

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this offering circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is denominated in a currency different from that of the potential investor;
- understand thoroughly the terms of the Securities and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Securities are subordinated obligations.

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

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

We may, at our sole discretion, elect to cancel any scheduled Distributions (as defined in “Terms and Conditions of the Securities”) on the Securities for any period of time, unless we have declared, paid or made any dividend, distribution or other payment in respect of, or redeemed or purchased, any Junior Obligations or Parity Obligations (other than any such payment, redemption or purchase that is mandatory pursuant to the terms thereof) during the 12-month period ending on the tenth Business Day (as defined in “Terms and Conditions of the Securities”) prior to the scheduled payment date for the applicable Distribution. We note in this regard that, historically, we have made discretionary dividend payments on our common shares (which would constitute Junior Obligations) on an annual basis since 2001. We are not subject to any limits as to the number of times we may thus cancel Distributions on the Securities. In addition, if a Capital Deficiency Event (as defined in “Terms and Conditions of the Securities”) with respect to our company has occurred and is continuing on any scheduled payment date for a Distribution on the Securities, the relevant Distribution will not be due and payable and will be cancelled. Subject to certain limited exceptions, in the event of any cancellation of scheduled Distributions on the Securities as described above, we would be restricted from making any discretionary dividend, distribution or other payments on, or any discretionary redemptions or buy-backs of, any of our Junior Obligations (including our common shares) or Parity Obligations until the next following scheduled payment date on which we pay the scheduled Distribution in full.

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

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

- determined by the FSC or the Deposit Insurance Committee established within the KDIC (the “DIC”), based on an actual survey of such financial institution’s business operations, as (i) having liabilities that exceed its assets (each as valued and calculated in accordance with standards established by the FSC), or (ii) facing apparent difficulty in its normal operations because its liabilities exceed its assets (each as valued and calculated in accordance with standards established by the FSC) as a result of the occurrence of a major financial scandal or the accrual of non-performing loans;

- subject to a suspension of payments of claims (including deposits) or repayments of money borrowed from other financial institutions; or

- determined by the FSC or the DIC to be unable to make payments of claims (including deposits) or repayments of money borrowed, without external support or additional borrowings (other than borrowings accruing from ordinary course financial transactions).

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

- its risk-based capital adequacy ratio is 50% or higher but lower than 100%;

- the overall comprehensive risk grade given to the insurance company by the FSS under its Risk Assessment and Application System evaluation is 3 (less than satisfactory) or higher but the risk grade for solvency margin is 4 (deficient) or lower;

- the overall comprehensive risk grade given to the insurance company by the FSS under its Risk Assessment and Application System evaluation is 3 (less than satisfactory) or higher but the risk grade for any two of insurance risk, interest risk or investment risk is 4 (deficient) or lower; or

- the FSS deems it clear that the insurance company would fall under any of the criteria above due to the occurrence of significant financial incidents or non-performing assets.

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

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

- the overall comprehensive risk grade given to the insurance company by the FSS under its Risk Assessment and Application System evaluation is 4 (deficient) or lower; or

- the FSS deems it clear that the insurance company would fall under either of the criteria above due to the occurrence of significant financial incidents or non-performing assets.

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

- the insurance company constitutes an insolvent financial institution under the Act on Structural Improvement of the Financial Industry as described above; or

- its risk-based capital adequacy ratio is lower than 0%.

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

- a drastic deterioration in the liquidity of the insurance company, due to the occurrence of events such as widespread termination of policies by existing policyholders, causes it to experience, among others, shortages of reserves and assets for payment of insurance claims or an inability to repay its external debts; or

- it becomes impracticable or impossible for the insurance company to conduct normal business operations due to the occurrence of events such as suspension of its business or sales activities, widespread termination of policies by existing policyholders, or a labor dispute.

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

Historically, we have not been subject to any events that would qualify as a Capital Deficiency Event. In particular, our risk-based capital adequacy ratio has been maintained at a level exceeding 200% since 2007. However, there is no guarantee that we will not be subject to a Capital Deficiency Event in the future.

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

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

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

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

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

The Securities have a 30-year term which will be automatically extended for additional 30 years on the initial maturity date and each subsequent maturity date unless we elect to redeem the Securities. Accordingly, the Securities have no fixed final maturity date. In addition, holders have no right to call for the redemption of the Securities. Although we may redeem the Securities at our option on July 24, 2022 and on each Distribution Payment Date (as defined in "Terms and Conditions of the Securities") thereafter, or at any time after five years from the Issue Date upon the occurrence of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event (each as defined in "Terms and Conditions of the Securities"), there are limitations on redemption of the Securities, including a requirement to obtain the prior approval of the FSS and satisfaction of certain minimum solvency margin ratio thresholds, as described under "Terms and Conditions of the Securities — Redemption and Purchase."

We may redeem the Securities under certain circumstances.

As described above, the Securities may be redeemed at our option (in whole but not in part) on July 24, 2022 and on each Distribution Payment Date thereafter, in each case subject to the satisfaction of certain regulatory conditions. The Securities may also be redeemed at our option (in whole but not in part) at any time after five years from the Issue Date upon the occurrence of a Gross-Up Event, Regulatory Event, Accounting Event or Tax Deductibility Event, in each case subject to the satisfaction of certain regulatory conditions.

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

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

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

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

The Securities are rated "A3" by Moody's and "A-" by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure investors that a rating assigned to the Securities will remain for any given period of time or that a rating assigned to the Securities will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of Securities of any such revision, suspension or withdrawal. A revision, suspension, or withdrawal at any time of a rating assigned to the Securities may adversely affect the market price of the Securities.

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

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

An active trading market for the Securities may not develop.

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

We may be or become a passive foreign investment company for U.S. federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. investors in our Securities.

A non-U.S. corporation will be a passive foreign investment company (a "PFIC"), for any taxable year in which (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value (based on an average of quarterly values) of its assets is attributable to assets that produce or are held for the production of passive income, as determined for U.S. federal income tax purposes. If we were treated as a PFIC for any taxable year during which a U.S. holder holds the Securities, certain adverse U.S. federal income tax consequences, including additional taxation on gains (if any) and on Distributions by us, and additional reporting requirements could apply to that U.S. holder.

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2016. Based on the current and projected composition of our income, valuation of our assets, and activities, we do not currently anticipate becoming a PFIC for our current taxable year or the foreseeable future. However, our PFIC status will depend upon the composition of our income and assets and on the nature of our insurance and other activities, which will change from time to time. Moreover, there is little guidance on how the PFIC rules apply to a non-U.S. insurance company, and it is therefore possible that the U.S. Internal Revenue Service would disagree with the determinations made by us as to how our business activities, income and assets should be classified. Accordingly, there is no assurance that we will not become a PFIC or that the U.S. Internal Revenue Service will not take a position contrary to that described above and assert that we are a PFIC. U.S. holders are urged to consult their own tax advisors regarding our possible status as a PFIC. See "Taxation — Certain United States Income Tax Considerations — Passive Foreign Investment Company."

Risks Relating to Forward-Looking Statements

This offering circular contains forward-looking statements that are our management's present expectations of future events and are subject to certain factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to our business discussed above, other factors could cause actual results to differ materially from those described in the various forward-looking statements contained in this offering circular. These factors include, but are not limited to, the following:

- general economic, business and political conditions;
- adverse trends in regulatory, legislative and judicial developments;
- the ability of third parties to perform in accordance with contractual terms and specifications;

- changes in interest rates;
- our leverage and our ability to meet our debt obligations;
- declines in consumer confidence;
- changes in competitive conditions in the Korean life insurance, securities and book retailing industries; and
- conditions in the financial markets.

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

We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this offering circular. Except as required by law, we are not under any obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

We expect to use the net proceeds from the Offering, which are expected to be approximately US$496,300,000 (net of underwriting discounts and commissions but prior to deducting other offering expenses), for general corporate purposes.

EXCHANGE RATES

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all.

Period	At End of Period	Average Rate(1)	High	Low
		(Won per US$1.00)		
2012	₩1,071.1	₩1,126.9	₩1,181.8	₩1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017 (through July 14)	1,137.5	1,142.5	1,208.5	1,112.5
January	1,157.8	1,185.1	1,208.5	1,157.8
February	1,132.1	1,144.9	1,165.5	1,131.0
March	1,116.1	1,134.8	1,158.2	1,112.5
April	1,130.1	1,132.7	1,145.8	1,113.8
May	1,123.9	1,125.3	1,134.5	1,117.1
June	1,139.6	1,130.0	1,142.2	1,118.4
July (through July 14)	1,137.5	1,148.0	1,155.8	1,137.5

Source: Seoul Money Brokerage Services, Ltd.

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

CAPITALIZATION

The following table sets forth our capitalization (defined as the sum of our long-term borrowings, net of current portion, and our total equity) as of March 31, 2017, on an actual basis and adjusted to give effect to the issuance of the Securities offered hereby.

You should read the information set forth below in conjunction with "Selected Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements appearing elsewhere in this offering circular.

Other than as set forth below, there has been no material change in our capitalization since March 31, 2017.

	As of March 31, 2017	
	Actual	**As adjusted**(1)
	(In billions of Won)	
Long-term borrowings (net of current portion)	₩ 82	₩ 82
Equity:		
Capital stock	103	103
Capital surplus	436	436
Capital adjustments	(15)	(15)
Accumulated other comprehensive income	1,018	1,018
Retained earnings	6,066	6,066
Securities to be issued hereby	—	554
Non-controlling interests	369	369
Total equity	7,976	8,530
Total capitalization	₩ 8,058	₩ 8,612

(1) Reflects net proceeds of US$496,300,000 (net of underwriting discounts and commissions but prior to deducting other offering expenses) from the Offering translated into Won at Won 1,116.1 to US$1.00, the Market Average Exchange Rate in effect as of March 31, 2017. No representation is made that the Won or U.S. dollar amounts referred to in this offering circular could have been or could be converted into U.S. dollars or Won, as the case may be, or at any particular rate or at all.

SELECTED FINANCIAL AND OPERATING DATA

The following tables set forth our selected financial and operating data. Our selected financial data as of and for the years ended December 31, 2014, 2015 and 2016 set forth below has been derived from our annual consolidated financial statements included elsewhere in this offering circular. Our selected financial data as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 set forth below has been derived from our unaudited condensed consolidated interim financial statements included elsewhere in this offering circular. It is important that you read our selected financial and operating data set forth below in conjunction with our financial statements, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other historical financial information appearing elsewhere in this offering circular. Our financial statements included in this offering circular have been prepared in accordance with K-IFRS, which differ in certain significant respects from generally accepted accounting principles in other countries, including the United States.

Selected Statements of Comprehensive Income Data

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Operating revenue:					
Premium income	₩ 8,078	₩ 7,836	₩ 7,901	₩ 2,049	₩ 1,956
Reinsurance income	87	86	93	23	25
Interest income	2,636	2,650	2,630	657	636
Gain on valuation and disposal of financial instruments	673	909	911	545	1,330
Gain on foreign currency transaction	290	561	637	54	80
Fees and commission income	147	234	218	54	50
Dividend income	178	266	301	105	115
Rental income	100	97	96	24	23
Separate account commission earned	754	799	821	211	207
Separate account income	112	128	124	42	59
Other operating income	651	688	710	183	190
Total operating revenue	13,706	14,255	14,442	3,947	4,670
Operating expenses:					
Provision for liabilities under insurance contracts	4,396	3,863	3,896	988	787
Insurance claims paid	4,676	4,994	5,222	1,302	1,404
Reinsurance premium expenses	92	91	96	23	26
Insurance operating expenses	876	830	864	208	197
Amortization of deferred acquisition costs	910	867	844	220	202
Investment administrative expenses	117	105	107	23	24
Interest expenses	132	130	152	45	26
Loss on valuation and disposal of financial instruments	743	1,255	1,288	301	302
Loss on foreign currency transaction	67	94	158	266	1,077
Separate account commissions paid	26	26	27	8	6
Separate account expenses	112	128	124	42	59
Other operating expenses	905	957	978	244	261
Total operating expenses	13,052	13,340	13,755	3,669	4,370
Operating income	654	915	687	278	300
Non-operating income	33	23	53	16	12
Non-operating expenses	57	61	27	8	64
Net Income before income tax expenses	629	877	712	287	248
Income tax expense	112	233	169	68	58
Net income	₩ 517	₩ 644	₩ 543	₩ 219	₩ 190

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(in billions of Won, other than per share data)				
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Gain (loss) on valuation of available-for-sale financial assets	170	1	(147)	89	(1)
Loss on valuation of held-to-maturity financial assets	(6)	(5)	14	(1)	(2)
Gain (loss) on valuation of investments in associates	0	(0)	(1)	(0)	1
Gain (loss) on valuation of derivative instruments	33	9	28	(7)	(1)
Other comprehensive gain (loss) in separate accounts	23	(4)	(15)	13	5
Foreign currency translation adjustments for foreign operations	0	(0)	1	(1)	(3)
Items that will not be reclassified to profit or loss:					
Gain (loss) on revaluation of property and equipment	12	3	(1)	4	4
Remeasurement gain (loss) related to defined benefit liabilities	(15)	(3)	21	(0)	(1)
Total comprehensive income	₩ 735	₩ 645	₩ 445	₩ 315	₩ 192
Earnings per share (in Won)					
Basic and diluted earnings per share	₩ 24,646	₩ 29,651	₩ 25,097	₩ 10,215	₩ 8,837

Selected Statements of Financial Position Data

	As of December 31,			As of March 31,
	2014	2015	2016	2017
		(in billions of Won)		
Assets				
Cash and due from banks	₩ 1,444	₩ 1,729	₩ 1,377	₩ 1,652
Financial assets designated at fair value through profit or loss	312	347	336	235
Trading assets	4,502	4,087	3,951	4,047
Derivative assets	179	191	242	581
Available-for-sale financial assets	22,148	22,683	21,138	20,988
Held-to-maturity financial assets	19,283	22,860	27,188	26,978
Loans	16,372	16,820	18,463	18,308
Other receivables	1,318	1,646	1,696	1,875
Investments in associates	106	106	90	81
Investment property	1,208	1,169	1,136	1,129
Property and equipment	1,330	1,350	1,346	1,344
Intangible assets	74	62	52	53
Deferred acquisition costs	2,057	1,959	1,787	1,743
Current tax assets	14	13	58	38
Deferred tax assets	5	7	5	6
Other assets	147	109	146	202
Non-current assets held for sale	2	–	–	5
Separate account assets	15,263	16,871	17,673	18,349
Total assets	₩ 85,762	₩ 92,008	₩ 96,684	₩ 97,614
Liabilities				
Liability under insurance contracts	₩ 55,743	₩ 59,652	₩ 63,668	₩ 64,479
Policyholders' equity adjustment	592	567	464	449
Financial liabilities designated at fair value through profit or loss	1,681	1,613	1,504	1,668
Trading liabilities	289	211	428	536
Derivative liabilities	554	779	1,118	398
Borrowings	2,297	2,094	1,451	1,372
Other financial liabilities	1,248	1,473	1,412	1,443
Provisions	23	27	19	19
Defined benefit obligation	65	62	26	44
Current tax liabilities	43	56	2	2
Deferred tax liabilities	354	356	350	387
Other liabilities	247	243	252	313
Separate account liabilities	15,670	17,351	18,129	18,527
Total liabilities	78,805	84,485	88,822	89,638
Equity				
Capital stock	103	103	103	103
Capital surplus	438	437	436	436
Capital adjustments	(20)	(20)	(16)	(15)
Accumulated other comprehensive income	1,116	1,115	1,015	1,018
Retained earnings	5,017	5,552	5,962	6,066
Equity attributable to owners of the Controlling Company	**6,654**	**7,186**	**7,498**	**7,607**
Non-controlling interests	**304**	**337**	**364**	**369**
Total equity	**6,957**	**7,523**	**7,863**	**7,976**
Total equity and liabilities	**₩ 85,762**	**₩ 92,008**	**₩ 96,684**	**₩ 97,614**

Operating Data (Including Separate Accounts)

	As of or for the Year Ended December 31,			As of or for the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(on a standalone basis) (in billions of Won, except as otherwise indicated)				
Total policies in force (in thousands)	9,117	9,248	9,264	9,283	9,283
Number of new policies sold (in thousands)	917	893	843	221	230
Gross premiums (1)(2)	₩ 12,299	₩ 12,609	₩ 12,242	₩ 3,012	₩ 2,962
First year premiums (1)(2)	3,256	3,230	2,671	751	658
First year regular payment premiums	2,101	2,646	2,110	551	489
First year single payment premiums	1,155	584	562	204	169
In-force face amount growth ratio(3)	2.8%	2.2%	0.5%	0.5%	0.0%
New policy growth ratio(4)	15.0%	14.0%	12.1%	3.5%	3.1%
Lapse and surrender ratio(5)	8.4%	7.8%	7.9%	2.2%	2.2%
Policy persistency ratio(6):					
13-month	79.5%	80.0%	80.0%	81.2%	79.2%
25-month	68.3%	67.4%	67.5%	67.7%	69.6%
Operating expense ratio(7)	14.2%	12.9%	12.8%	12.9%	12.4%
Risk-based capital adequacy ratio (8)	271.3%	259.8%	233.9%	262.8%	234.5%
Return on equity(9)	7.7%	8.4%	6.6%	11.0%	9.6%
Return on assets (10)	0.6%	0.7%	0.5%	0.9%	0.8%

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

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

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

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

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

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

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

(8) Calculated in accordance with the applicable requirements of the FSS. See "Regulation and Supervision – Risk-Based Supervision of Insurance Companies – Risk-Based Capital Adequacy Requirements." For information regarding our available capital for purposes of calculating our statutory risk-based capital adequacy ratio as of March 31, 2017, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk-Based Capital Adequacy Requirements."

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our consolidated financial information as of and for the years ended December 31, 2014, 2015 and 2016 and as of March 31, 2017 and for the three months ended March 31, 2016 and 2017 should be read in conjunction with our audited consolidated annual financial statements and related notes included in this offering circular, which have been prepared in accordance with K-IFRS, and our unaudited condensed consolidated interim financial statements and related notes included in this offering circular, which have been prepared in accordance with K-IFRS No. 1034 "Interim Financial Reporting." K-IFRS differs in certain significant respects from generally accepted accounting principles in other countries, including the United States. The discussion contains forward-looking statements and reflects our current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this offering circular.

Overview

We are one of the leading life insurance companies in Korea, offering a broad range of life insurance and investment products to retail customers as well as group life insurance products and retirement pension plans to institutional customers through our established distribution and marketing channels. As of and for the year ended December 31, 2016, we were ranked as the third largest Korean life insurance company in terms of asset size and gross premiums (including separate account premiums) on a standalone basis, according to the Korea Life Insurance Association. As of March 31, 2017, we had approximately 9.3 million life insurance policies in force and approximately 4.4 million individual policyholders.

We seek to pursue a profit and quality-oriented growth strategy with an emphasis on selling higher-margin life insurance products and improving cost efficiencies. We are strategically focused on product innovation with the objective of increasing the insurance coverage provided to our customers and attracting new business by introducing creative new products and additional services encompassing life insurance, fund and trust products that cater to the evolving investment and protection needs of the rapidly aging Korean population, as well as changes in the regulatory environment. Based on these principles, we have consistently maintained a leading position in the Korean life insurance market in terms of profitability, business profile and financial strength.

We develop and distribute a comprehensive range of individual and group life insurance products that provide protection against a policyholder's death, disability, illness, accident or other events, as well as annuities and savings insurance products. We also offer variable insurance products and retirement pension plans to address our customers' growing preference for greater investment flexibility. Utilizing our ability to develop innovative products in response to changing customer preferences and the substantial resources we have devoted to analyzing changes in demographic, mortality and investment trends, we offer insurance products and services that cater to individuals' specific needs at various stages of their lives.

In addition to our core life insurance operations, we engage in the securities business through Kyobo Securities Co., Ltd., in which we hold a 51.6% interest, and operate Korea's largest chain of bookstores through Kyobo Book Center Co., Ltd., our wholly-owned subsidiary, as well as other ancillary businesses and investments through 18 additional consolidated subsidiaries. The assets of our life insurance operations on a standalone basis represented 94.5% of our consolidated total assets as of March 31, 2017, while the net income from our life insurance operations on a standalone basis represented 88.6% and 94.6% of our consolidated net income for 2016 and the three months ended March 31, 2017, respectively.

Major Factors Affecting Our Results of Operations and Financial Condition

As a Korean life insurance company that also engages in the securities business and operates Korea's leading bookstore chain, our ability to generate operating revenues and income and to sustain our financial condition depends on a variety of factors, including our ability to attract and retain customers for our products and services as well as manage our expenses, including the costs of distributing and administering insurance policies and other products and services and providing customer service. For our life insurance business, such factors also include principally:

- our ability to design and distribute insurance products and services and to introduce new products that gain market acceptance on a timely basis;
- our ability to price, and manage risk on, our insurance products at levels that enable us to earn a margin over the costs of providing benefits and the expense of acquiring customers and administering those products;
- our ability to generate sufficient returns on, and to successfully manage the liquidity, market and credit risk in, our investment portfolio, as well as to manage the rate and duration gap between our interest rate-sensitive assets and liabilities;
- our mortality and morbidity experience; and
- our persistency experience, which affects our ability to recover the cost of acquiring new business over the duration of the relevant insurance contracts.

In addition, our results of operations have fluctuated, and are expected to continue to fluctuate, from period to period based on:

- conditions in the Korean economy;
- changes in interest rates;
- the regulatory environment in the Korean life insurance industry;
- changes in the mix of our distribution channels; and
- changes in the mix of products we sell.

Conditions in the Korean Economy

Our business and performance are affected by general economic and market conditions in Korea and elsewhere, and these conditions may change suddenly and dramatically. A favorable business environment is generally characterized by, among other factors, high GDP growth, stable geopolitical conditions, transparent and efficient capital markets, low inflation, high business and investor confidence and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by difficulties in the financial sector, corporate, political or other scandals that reduce interest or confidence in capital markets, declines in business confidence, increases in inflation, natural disasters or pandemics, outbreaks of hostilities or other geopolitical instability, or a combination of these or other factors. In light of the high level of interdependence of the global economy, any major developments in the global economy could affect the Korean economy and financial markets, and in turn our business. In particular, our exposure to retail customers means that we are significantly affected by changes in economic conditions that impact individuals in Korea. Fluctuations in unemployment levels, interest rates, real estate or stock prices or other aspects of the Korean economy and financial markets that affect retail customers could result in increases or decreases in demand for life insurance and investment products and market participation levels by individuals, which in turn may affect our business and performance. See “Risk Factors — Risks Relating to Our Business — Adverse conditions and volatility in the Korean economy and financial markets may negatively affect our business and performance.”

Furthermore, our ability to make a profit on life insurance products depends in part on the returns on the general account investments supporting our obligations under these products, and the value of specific investments may fluctuate substantially depending on conditions in the global economy generally and particularly in the Korean and U.S. fixed income, real estate and equity markets. In addition, in our securities business, changes in stock prices or interest rates affect the value of our customers’ portfolios and their investing activities, which in turn may affect the amount of brokerage commissions we earn from executing buy and sell orders as well as fees we earn for managing assets. Changes in financial or economic conditions may also lead to increases or decreases in the number and size of transactions in which we provide underwriting, merger and acquisition advisory and other services. Any fees that we earn for our investment banking services would be directly impacted by the number and size of the transactions we participate in, and would therefore be affected by market upturns or downturns.

The life insurance industry and the securities industry in Korea are expected to continue growing in the medium to long term as a result of certain key industry fundamentals such as shifting customer demographics, development of distribution channels and increased focus on products with higher yields in the low interest rate environment. However, as a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the recent political scandals and related ongoing corporate investigations in Korea, the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment and lower consumer confidence, the economic outlook in the second half of 2017 and for the foreseeable future remains uncertain.

Interest Rates

Our results of operations depend, in part, on our level of net interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities. In particular, changes in market interest rates may affect the level of recognition of gains and losses on investment assets held in our life insurance business’ general account investment portfolio, which consist mainly of debt securities. A sustained period of lower interest rates would generally reduce the investment yield of our securities portfolio over time as higher yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields. However, declining interest rates would also increase realized and unrealized gains on our existing securities portfolio. Conversely, rising interest rates should over time increase our investment income, but may reduce the market value of our existing securities portfolio. See Note 55.4 of the notes to our annual consolidated financial statements for 2016 and 2015 for an analysis of the interest rate sensitivity of our assets.

In addition, some of our life insurance products, principally fixed annuities and savings insurance policies with guaranteed minimum interest or annuity payments, require us to pay fixed rates of return to policyholders and therefore expose us to the risk that changes in interest rates will reduce our “spread,” or the difference between the amounts that we are required to pay under the relevant policies and the rate of return we are able to earn on our general account investments intended to support our obligations under the policies. See “Risk Factors — Risks Relating to Our Business — Changes in interest rates may reduce the profitability of our spread businesses and the return on our investments, as well as negatively impact our risk-based capital adequacy ratio.” For a description of our general account investment portfolio and our recent investment results, see “Business — General Account Investments.”

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea reduced its policy rate by a total of 325 basis points to support Korea’s economy amid the global financial crisis, and left such rate unchanged at 2.00% throughout 2009. In an effort to stem inflation amid improved growth prospects, the Bank of Korea gradually increased its policy rate in 2010 and 2011 by a total of 125 basis points. However, the Bank of Korea reduced its policy rate to 3.00% in July 2012 and further reduced such rate to 1.25% in June 2016 through a series of reductions amid deflationary concerns and interest rate cuts by central banks around the world.

Regulatory Environment in the Korean Life Insurance Industry

Our operations are subject to insurance laws in Korea regulating all aspects of our business, and we are regulated and supervised principally by the FSC and its administrative body, the FSS. New laws or regulations or changes in enforcement of existing laws or regulations applicable to our operations or those of our agents may materially affect our business and results of operations. In particular, anticipated changes to the accounting standards and regulatory solvency regime applicable to the insurance industry in Korea are expected to materially impact the operations of Korean life insurance companies, including us.

Our financial statements are subject to the application of K-IFRS, which is periodically revised or expanded. In response to a lack of comparability in the global insurance industry stemming from variations in accounting policies being applied, IFRS 17, a new IFRS accounting standard for insurance contracts, is expected to be issued by the IASB in 2017 with an effective date of January 1, 2021. IFRS 17 will introduce a fundamentally different approach to current accounting policies in terms of both liability measurement and profit recognition. See “Risk Factors — Risks Relating to Our Business — Changes in accounting standards could adversely impact our reported results of operations and financial condition.” Around the time of the effective date of IFRS 17, we expect that the FSS will implement a new regulatory solvency regime for insurance companies in Korea based on new global insurance capital standards. It is anticipated that the FSS’ planned new solvency regime will, among other things, require a number of life insurance companies in Korea with a large portfolio of high guaranteed rate of return products, including us, to obtain additional capital to meet their capital adequacy requirements. As an interim measure, the FSS also recently announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies. Such changes implemented in June 2017 included increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation to 30 years (from the current maximum of 20 years), as well as reducing the coefficient applied in calculating interest rate risk from 1.85% to 1.50%, and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies. The details of the new solvency regime in Korea have not yet been finalized, and may be further amended in the future. See “Risk Factors — Risks Relating to Our Business — We may be required to raise additional capital or reduce our growth if our risk-based capital adequacy ratio deteriorates or the applicable capital requirements change in the future.”

Mix of Distribution Channels

Our life insurance product offerings, persistency ratios and cost structures vary by distribution channel, and the rebalancing of our distribution channels affects our operating revenues and profitability. Historically, we have relied on our financial planner channel as our primary marketing and distribution channel. However, we have also entered into bancassurance arrangements with Korea’s leading banks. We mainly sell savings insurance products and annuities through our bancassurance channel. We have also entered into marketing arrangements with leading general agencies in Korea, to take advantage of their broad customer base. We mainly sell annuities and savings insurance products through our agency channel, and we plan to expand our distribution of protection-type insurance products through such channel in the future. See "Business — Marketing and Distribution Channels." We believe that, in general, our bancassurance and agency channels enable us to more efficiently utilize our overhead expenses, as well as allow us to respond more effectively to changes in demand trends relating to different distribution channels of the Korean life insurance industry, which in turn would allow our overall profitability to increase if we are able to continue to increase the volume of our sales through such channels.

The following table sets forth the amounts and percentages of our first year premiums (including first year premiums for our separate accounts) attributable to each distribution channel, on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount(1)	%	Amount(1)	%
	(in billions of Won, except percentages)									
Financial planners(2)	₩ 1,470	45.2%	₩ 1,480	45.8%	₩ 1,340	50.2%	₩ 389	51.5%	₩ 331	50.4%
Bancassurance	963	29.6	579	17.9	682	25.5	191	25.3	162	24.6
Agencies	301	9.2	259	8.0	243	9.1	67	8.9	53	8.1
Corporate sales(3)	473	14.5	859	26.6	355	13.3	94	12.5	99	15.1
Direct marketing(4)	49	1.5	53	1.7	51	1.9	14	1.8	12	1.8
Total	₩ 3,256	100.0%	₩ 3,230	100.0%	₩ 2,671	100.0%	₩ 754	100.0%	₩ 658	100.0%

(1) For the first quarters of 2016 and 2017, first year premiums comprise the amount of premiums recognized in the specified interim period in respect of policies sold during that period.
(2) Excludes first year premiums attributable to group financial planners who primarily market group life insurance products to institutional customers and financial planners who support our direct marketing channel.
(3) Includes first year premiums attributable to group financial planners.
(4) Includes first year premiums attributable to financial planners who support our direct marketing channel.

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

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount(1)	%	Amount(1)	%
	(in billions of Won, except percentages)									
Financial planners(2)	₩ 1,157	62.8%	₩ 1,053	61.5%	₩ 943	58.6%	₩ 248	55.3%	₩ 244	53.7%
Bancassurance	375	20.4	333	19.4	391	24.3	121	27.0	137	30.2
Agencies	214	11.6	216	12.6	170	10.6	49	10.9	45	9.9
Corporate sales(3)	48	2.6	58	3.4	57	3.6	18	3.9	17	3.8
Direct marketing(4)	49	2.6	53	3.1	48	3.0	13	2.9	11	2.3
Total	₩ 1,842	100.0%	₩ 1,713	100.0%	₩ 1,609	100.0%	₩ 449	100.0%	₩ 454	100.0%

(1) For the first quarters of 2016 and 2017, APE is calculated based on the amount of premiums recognized in the specified interim period in respect of policies sold during that period.
(2) Excludes APE attributable to group financial planners who primarily market group life insurance products to institutional customers and financial planners who support our direct marketing channel.
(3) Includes APE attributable to group financial planners.
(4) Includes APE attributable to financial planners who support our direct marketing channel.

Mix of Products

Our operating revenues and profitability are affected by changes in the mix of life insurance products we sell. For example, protection-type products have typically been more profitable than annuities and savings insurance products. The following tables set forth information about the amounts and percentages of our gross premiums, first year premiums and APE (including premiums for our separate accounts) accounted for by each product type, on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Gross Premiums		Gross Premiums		Gross Premiums		Gross Premiums		Gross Premiums	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
General account (1)										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 3,061	24.9%	₩ 3,393	26.9%	₩ 3,658	29.9%	₩ 952	31.6%	₩ 889	30.0%
Other protection- type products (2)	969	7.9	902	7.2	844	6.9	211	7.0	213	7.2
Annuities(3)	2,984	24.3	2,414	19.1	2,251	18.4	587	19.5	586	19.8
Savings insurance	950	7.7	1,004	8.0	1,006	8.2	264	8.8	228	7.7
Group insurance:										
Pure protection	99	0.8	101	0.8	103	0.8	26	0.9	27	0.9
Savings insurance	12	0.1	12	0.1	12	0.1	3	0.1	3	0.1
Subtotal	8,076	65.7	7,825	62.1	7,874	64.3	2,043	67.8	1,945	65.7
Separate accounts (4)										
Individual insurance:										
Variable protection- type products (5)	1,063	8.6	1,100	8.7	1,085	8.9	273	9.1	271	9.2
Variable annuities	1,616	13.1	1,643	13.0	1,616	13.2	404	13.4	419	14.1
Variable savings insurance (6)	251	2.0	212	1.7	168	1.4	47	1.6	36	1.2
Retirement pensions	1,294	10.5	1,829	14.5	1,499	12.2	245	8.1	291	9.8
Subtotal	4,224	34.3	4,784	37.9	4,368	35.7	969	32.2	1,017	34.3
Total	₩12,299	100.0%	₩12,609	100.0%	₩12,242	100.0%	₩3,012	100.0%	₩2,962	100.0%

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	First Year Premiums		First Year Premiums		First Year Premiums		First Year Premiums[8]		First Year Premiums[8]	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In billions of Won, except percentages)									
General account [1]										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 509	15.6%	₩ 694	21.5%	₩ 773	28.9%	₩250	33.1%	₩137	20.8%
Other protection-type products [2]	105	3.2	112	3.5	120	4.5	24	3.1	42	6.5
Annuities[3]	1,185	36.4	644	19.9	513	19.2	251	19.6	163	24.8
Savings insurance	477	14.7	422	13.1	493	18.5	22	17.8	82	12.5
Group insurance:										
Pure protection	33	1.0	34	1.0	36	1.3	9	1.2	10	1.5
Savings insurance	2	0.1	2	0.1	1	0.0	0	0.0	0	0.0
Subtotal...............	2,310	71.0	1,908	59.1	1,936	72.5	565	74.9	434	66.0
Separate accounts [4]										
Individual insurance:										
Variable protection-type products [5]	171	5.2	127	3.9	67	2.5	21	2.8	16	2.5
Variable annuities...........	266	8.2	306	9.5	275	10.3	64	8.5	96	14.6
Variable savings insurance [6]................	11	0.3	2	0.1	2	0.1	0	0.1	0	0.1
Retirement pensions	499	15.3	887	27.5	392	14.7	104	13.8	110	16.8
Subtotal...............	946	29.0	1,322	40.9	735	27.5	189	25.1	223	34.0
Total	₩ 3,256	100.0%	₩ 3,230	100.0%	₩ 2,671	100.0%	₩754	100.0%	₩658	100.0%

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	APE		APE		APE		APE[9]		APE[9]	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In billions of Won, except percentages)									
General account [1]										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 533	28.9%	₩ 617	36.0%	₩ 614	38.2%	₩191	42.5%	₩ 90	19.7%
Other protection-type products [2]	98	5.3	100	5.8	144	9.0	22	4.9	59	13.1
Annuities [3]	489	26.5	346	20.2	280	17.4	82	18.2	112	24.6
Savings insurance	276	15.0	263	15.4	287	17.9	91	20.2	65	14.3
Group insurance:										
Pure protection	35	1.9	36	2.1	38	2.4	10	2.3	10	2.2
Savings insurance	1	0.1	1	0.1	1	0.0	0	0.0	0	0.0
Subtotal.................	1,432	77.8	1,362	79.5	1,364	84.8	396	88.2	336	73.9
Separate accounts [4][7]										
Individual insurance:										
Variable protection-type products [5]	150	8.2	94	5.5	54	3.4	12	2.6	19	4.2
Variable annuities.............	256	13.9	256	14.9	189	11.7	41	9.1	99	21.8
Variable savings insurance [6]	3	0.2	2	0.1	1	0.1	0	0.1	1	0.2
Subtotal.................	410	22.2	351	20.5	244	15.2	53	11.8	119	26.1
Total	₩1,842	100.0%	₩1,713	100.0%	₩1,609	100.0%	₩449	100.0%	₩454	100.0%

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

Under the Regulation on Supervision of Insurance Business, we are required to maintain separate accounts related to variable insurance policies as well as retirement pension products. These separate accounts are segregated from each other and from our general account. Investment and other assets supporting the obligations under these separate account products, net of amounts receivable from the general account, are recorded as "separate account assets" in our statements of financial position, while insurance contract liabilities, investment contract liabilities and other liabilities, net of amounts payable to the general account, are recorded as "separate account liabilities" in our statements of financial position.

In our statements of comprehensive income, interest income, investment income and other income on our retirement pension products that provide fixed-level benefits are recorded as "separate account income," while a corresponding amount of increase in investment contract liabilities, separate account management fees and other expenses on such retirement pension products that provide fixed-level benefits are recorded as "separate account expenses." On the other hand, income and expenses on separate account products, such as variable insurance policies, that provide benefits based on the performance of the underlying investment assets are disclosed in the notes to our financial statements but are generally not recorded in our statements of comprehensive income. See Note 31 of the notes to our unaudited condensed consolidated interim financial statements and Notes 2.3.20 and 32 of the notes to our annual consolidated financial statements for 2016 and 2015. However, the portion of premiums received on variable insurance policies that relates to acquisition and operating costs is recognized as premium income, and such costs are recognized as general account expenses, in our statements of comprehensive income. Furthermore, with respect to variable insurance policies that also provide guaranteed minimum protection, annuity or savings benefits (such as variable whole life insurance policies, variable annuities and variable savings insurance policies), we establish policy reserves in our general account with respect to such guaranteed minimum benefits and record the investment and other assets supporting such benefit obligations as general account assets in our statements of financial position. We also recognize the portion of the premiums received on variable insurance policies that relates to such guaranteed minimum benefits as "separate account commission earned," and the provisions for policy reserves and insurance claims paid with respect to such guaranteed minimum benefits as general account expenses, in our statements of comprehensive income. In addition, we earn periodic management fees on our management and administration of separate account investment assets, which we record as "separate account commission earned" in our statements of comprehensive income.

Major Components of Our Statements of Comprehensive Income

Operating Revenues

We derive our operating revenues from:

- premium income on life insurance products sold to retail and institutional customers (including the portion of premiums received on variable insurance policies that relates to acquisition and operating costs);

- interest income from our holdings of debt securities and bank deposits, as well as from loans we provided;
- gain on valuation and disposal of financial instruments held by us that relate to our securities business as well as our life insurance business;
- separate account commission earned, which primarily comprises periodic management fees we earn on our management and administration of separate account assets, surrender charges that relate to unamortized deferred acquisition costs of variable insurance policies (which we earn on policies that are surrendered or terminated), as well as the portion of premiums received on variable insurance policies that relates to guaranteed minimum protection, annuity or savings benefits provided under such policies;
- other operating income, which primarily comprises merchandise sales of our bookstore business and, to a lesser extent, miscellaneous sales of our consolidated subsidiaries other than Kyobo Securities and Kyobo Book Center;
- gain on foreign currency transaction, consisting of gains on foreign currency translations and transactions related to our business operations;
- dividend income, primarily from our holdings of beneficiary certificates, overseas securities, equity securities and equity investments;
- fees and commission income, which mainly comprises commissions received for various services offered by Kyobo Securities, including brokerage service commissions, commissions from sales of investment products, underwriting commissions and advisory fees relating to investment banking activities and financial advisory fees, as well as credit placement fees of our life insurance business;
- separate account income (which corresponds to, and offsets, separate account expenses), consisting of interest income, investment income and other income on our retirement pension products that provide fixed-level benefits;
- rental income from properties owned and leased by us; and
- reinsurance income, consisting of claims and commissions received under our ceding arrangements with various reinsurance companies to spread our insurance risk.

Operating Expenses

Our operating expenses consist of:

- insurance claims paid to policyholders, in the form of:
    - insurance benefits, comprising predetermined claims and benefits paid either periodically under annuities, upon the occurrence of covered events under policies that result in the expiration of such policies, such as the death of the insured person under whole life insurance policies or upon the occurrence of covered events such as the diagnosis of covered critical illnesses under health insurance policies;
    - cash surrender amounts paid upon surrender or withdrawal of policies; and
    - dividends on certain participating insurance contracts;

- provision for liabilities under insurance contracts (see "— Critical Accounting Policies — Policy Reserves");
- loss on valuation and disposal of financial instruments, which includes losses on disposal of derivatives, available-for-sale financial assets and trading assets as well as impairment losses on financial assets held by us that relate to our securities business as well as our life insurance business;
- other operating expenses, which relate primarily to expenses of non-life insurance businesses, including cost of sales of merchandise sold by Kyobo Book Center, general and administrative expenses and cost of sales related to services;
- insurance operating expenses, which include policy acquisition costs (other than those that are deferred), as well as various policy maintenance expenses, including wages and salaries, bonuses and benefits for our employees (other than asset management personnel), taxes and dues, office rent expenses, employee benefits expenses and miscellaneous other insurance operating expenses;
- amortization of deferred acquisition costs, which include commissions paid to financial planners and other agents and various other costs to issue and underwrite policies (including promotion expenses and printing and advertising expenses) (see "— Critical Accounting Policies — Deferred Acquisition Costs");
- interest expenses primarily with respect to derivatives and, to a lesser extent, borrowings related to our securities business;
- loss on foreign currency transaction, consisting of losses on foreign currency transactions and translations related to our business operations;
- separate account expenses (which correspond to, and offset, separate account income), consisting of increase in investment contract liabilities, separate account management fees and other expenses on our retirement pension products that provide fixed-level benefits (see "— Major Factors Affecting Our Results of Operations and Financial Condition — Mix of Products");
- investment administrative expenses, which consist primarily of wages and salaries, bonuses and benefits for our asset management personnel, commissions paid in connection with our general account asset management, outsourcing fees related to our investment activities, and related taxes and dues;
- reinsurance expenses paid to various reinsurance companies in connection with our ceding arrangements to diversify our insurance risk; and
- separate account commission paid.

Operating Income

Our operating income is our operating revenues less our operating expenses.

Non-Operating Income and Expenses

Our non-operating income consists primarily of gain on valuation of investments in joint ventures and associates, gain on disposal of investment properties and other miscellaneous non-operating income.

Our non-operating expenses consist primarily of donations, impairment of property and equipment and investment properties, loss on disposal of property and equipment and other miscellaneous non-operating expenses.

Income Tax Expenses

Our income tax expense consists of current income tax and deferred income tax reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, other than the portions reflected directly in equity. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the related temporary differences are expected to reverse. See Note 49 of the notes to our annual consolidated financial statements for 2016 and 2015.

Critical Accounting Policies

We have identified the accounting policies described below, involving judgments, estimates and assumptions, as critical to an understanding of our financial condition and results of operations. The preparation of our financial statements requires us to make difficult, complex and subjective judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observation of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. While we believe our estimates and judgments to be reasonable under the circumstances, there can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items. In addition, other companies may utilize different accounting policies, which may impact the comparability of our results of operations to those of companies in similar businesses. For a discussion of our other significant accounting policies, see Notes 2 and 3 of the notes to our annual consolidated financial statements for 2016 and 2015.

Policy Reserves

For all of our insurance product lines, we establish, and record as “liability under insurance contracts” in our statement of financial position, reserves for future policy benefits and claims, which are determined in accordance with rules and regulations prescribed by the FSC and FSS that are applicable to the Korean life insurance industry. Reserves for variable insurance policies are generally determined on a market value basis, whereas reserves for non-variable insurance policies are generally determined on a historic value basis, where the reserving basis is fixed at the date of policy issuance. We record changes in our policy reserves as “provision for liabilities under insurance contracts” in our statement of comprehensive income for the period in which the liabilities are established or re-evaluated. At the end of each reporting period, we conduct a liability adequacy test to determine whether our insurance contract liabilities are adequate to cover our current estimate liability, which is an amount determined actuarially to meet our future obligations under our insurance contracts. See Note 22 of the notes to our unaudited condensed consolidated interim financial statements and Note 23 of the notes to our annual consolidated financial statements for 2016 and 2015 for the results of our liability adequacy tests. Our current estimate liability is calculated based on actuarially recognized methods for estimating future policy benefits and claims plus expenses. If our statutory insurance contract liabilities are inadequate to cover our actuarially-determined current estimate liability, we would be required to establish additional reserves such that the liability under insurance contracts is no less than the gross premium valuation amount.

In order to estimate the cash flow anticipated to occur for existing insurance contracts, reasonable anticipation of cash inflows (including premium income) and cash outflows (including insurance claims and benefits payments) is required. The basis for determining the current estimate liability is the present value of expected future payout of benefits and claims plus expenses, less future gross premiums, calculated through the use of assumptions for investment returns, mortality, morbidity, expenses and persistency, as well as certain macroeconomic factors such as inflation. Adequacy of individually estimated claims is assessed for reserves by selecting the most adequate model according to the trend of claims paid among various statistical methods. We apply the selected assumptions consistently for similar products. These assumptions are based on our experience and data published by the KIDI, as well as judgments made by our management. These assumptions may deviate from our actual experience, and as a result, we cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy reserves will grow to the level we assume prior to payment of benefits or claims. These amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future.

Deferred Acquisition Costs

We capitalize costs that are directly related to selling new insurance policies, including variable insurance policies recorded in separate accounts. These costs include commissions paid to financial planners and other agents, various other costs to issue and underwrite policies (including promotion expenses and printing and advertising expenses) and certain variable branch office expenses. The capitalized amounts are known as "deferred acquisition costs" and are recorded as an asset on our statement of financial position. Our total deferred acquisition costs amounted to Won 1,743 billion as of March 31, 2017, Won 1,787 billion as of December 31, 2016, Won 1,959 billion as of December 31, 2015 and Won 2,057 billion as of December 31, 2014. Deferred acquisition costs are generally amortized using the straight-line method over the premium payment term of the relevant insurance contract, or over seven years, whichever is shorter, with the amount amortized recorded as "amortization of deferred acquisition costs" in our statement of comprehensive income. If there is any unamortized acquisition costs remaining as of the date of termination or invalidation of an insurance contract, such remainder is amortized in its entirety in the accounting year in which the contract is terminated or invalidated.

If we were to experience a significant increase in lapse or surrender rates on policies, we would be required to evaluate whether this experience called into question our ability to recover all or a portion of the deferred acquisition costs, and we would be required to write off some or all of the deferred acquisition costs if we concluded that we could not recover them. Such write-offs of deferred acquisition costs are typically covered by penalties charged to the policyholder of such lapsed or surrendered policies, as well as by recoupment of portions of the commissions paid to financial planners who sold such policies. While write-offs of deferred acquisition costs would not directly affect our cash flow or liquidity, it may positively or negatively affect our reported earnings and level of capital depending on the extent of coverage through penalties and recoupment of commissions as described above.

Valuation of Financial Instruments

In our life insurance business, we maintain a diversified investment portfolio to generate investment returns to support our liabilities to our policyholders. We invest insurance premiums received from our policyholders in domestic bonds (including Government and Government-related bonds, special purpose bonds, corporate bonds and financial institution bonds), loans (including policy loans, unsecured credit loans and loans secured by real estate and other assets), overseas securities (including foreign-currency denominated bonds, beneficiary certificates and structured securities), beneficiary certificates, real property investments and domestic equity securities. In our securities business, we also invest in and trade various financial instruments such as debt and equity securities and derivatives, including as part of our proprietary investment activities. We also hold derivative instruments for the purpose of hedging our foreign exchange and, to a lesser extent, interest rate exposures as part of our risk management activities in both our life insurance and securities businesses.

Our investments in financial assets are classified as (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity financial assets or (iv) available-for-sale financial assets, as appropriate, and are initially recognized at fair value plus transaction costs, other than financial assets at fair value through profit or loss, which are initially recognized at fair value with transaction costs being expensed. Financial assets that are acquired principally to generate profits from short-term fluctuations in price are classified as financial assets at fair value through profit or loss. Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables, and other non-derivative financial assets with fixed or determinable payments and fixed maturities that we have the positive intent and ability to hold to maturity are classified as held-to-maturity financial assets. Financial assets that are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables are classified as available-for-sale financial assets. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions. The accounting method for the different categories of financial assets after the initial measurement is as follows:

- ***Financial assets at fair value through profit or loss.*** Financial assets at fair value through profit or loss are measured at fair value, with net changes in fair value presented as finance costs (for negative net changes in fair value) or finance income (for positive net changes in fair value) in our statement of comprehensive income.

- ***Loans and receivables.*** Loans and receivables are measured at amortized cost using the effective interest rate ("EIR") method, less impairment. The EIR amortization is included as finance income in our statement of comprehensive income, and the losses arising from impairment are recognized, in our statement of comprehensive income, as finance costs for loans and as cost of sales or other operating expenses for receivables.

- ***Held-to-maturity financial assets.*** Held-to-maturity investments are measured at amortized cost using the EIR method, less impairment. The EIR amortization is included as finance income in our statement of comprehensive income, and the losses arising from impairment are recognized as finance costs in our statement of comprehensive income.

- ***Available-for-sale financial assets.*** Available-for-sale financial assets are measured at fair value, with unrealized gains or losses recognized in other comprehensive income.

Our classification of a particular investment in financial assets depends to a large extent on our subjective intent with respect to the investment. If we were to change our investment intent with respect to a holding of financial assets, we would change our classification of such holding, and consequently we would have to change the measurement basis of such financial assets. A change in the basis for determining the fair value of a particular investment in financial assets could result in a change in the valuation of such investment as recorded on our statement of financial position, which could in turn require us to reflect a change in such valuation in our statement of comprehensive income. For further information regarding the classification of our investments in financial assets, see Note 2.3.10 of the notes to our annual consolidated financial statements for 2016 and 2015.

In addition, there are different methods by which we assess the fair value of our investments in financial assets. If available, published price quotations in an active market provide the best estimate of fair value. In the event that the market for a financial asset is not active, a valuation technique is used. Valuation techniques include reference to recent arm's length market transactions between knowledgeable and willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. However, the main input variables used to determine fair value through a valuation technique are not always observable in the market. We categorize our financial instruments into a three-level hierarchy based on the fair value measurements used, as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For further information regarding the portion of our financial assets that were measured at fair value using Level 2 or Level 3 valuation techniques, see Note 13 of the notes to our unaudited condensed consolidated interim financial statements and Note 14 of the notes to our annual consolidated financial statements for 2016 and 2015.

We also recognize losses on impairment of loans and receivable, held-to-maturity financial assets and available-for-sale financial assets if there is objective evidence of impairment, which determination requires significant judgment. For information regarding how we recognize and account for impairment of our financial assets, see Notes 2.3.10 and 3 of the notes to our annual consolidated financial statements for 2016 and 2015.

Defined Benefit Obligation

We operate both defined contribution and defined benefit pension plans for our employees. Contributions to the defined contribution plan are recognized as employee benefit expenses in the period in which an employee has rendered services. The service cost of the defined benefit plan and other post-employment medical benefits, as well as the present value of the defined benefit obligation, are determined using actuarial valuations. Under K-IFRS, the retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation, less the fair value of plan assets and adjustments for unrecognized past service cost. The defined benefit obligation is determined at the end of each reporting period by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is computed by discounting estimated future cash outflows by the market yield of high-quality corporate bonds with a maturity approximating the estimated maturity of the benefit payments in the same currency. Actuarial gains and losses arising from a change in actuarial assumptions or experience adjustments (i.e., the effects of differences between the previous actuarial assumptions and what has actually occurred) are recognized in profit and loss when incurred.

An actual valuation involves making various assumptions, which include determinations regarding discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in their valuation and their long-term nature, defined benefit obligations are highly sensitive to changes in the underlying assumptions. As a result of changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit obligations. The following assumptions were used in the actuarial assessments related to our defined benefit plan as of the dates indicated:

	As of December 31,			As of March 31,
	2014	2015	2016	2017
	(In percentages)			
Discount rate	2.30% to 3.90%	2.10% to 3.10%	2.00% to 3.00%	2.00% to 3.00%
Future salary increase rate	1.00% to 5.50%	2.50% to 5.50%	2.30% to 5.50%	2.30% to 5.50%

For an analysis of the sensitivity of our defined benefit obligation to changes in actuarial assumptions, see Note 29 of the notes to our annual consolidated financial statements for 2016 and 2015.

Results of Operations – First Quarter of 2017 compared to First Quarter of 2016

The following table presents selected statement of comprehensive income data and changes therein for the first quarter of 2016 and the first quarter of 2017.

	For three months ended March 31,		Changes 1Q 2016 versus 1Q 2017	
	2016	2017	Amount	%
	(In billions of Won or percentages)			
Operating revenues	₩ 3,947	₩ 4,670	₩ 722	18.3%
Operating expenses	3,669	4,370	700	19.1
Operating income	278	300	22	7.9
Non-operating income	16	12	(5)	(28.7)
Non-operating expenses	8	64	56	731.9
Net income before income tax expenses	287	248	(39)	(13.6)
Income tax expenses	68	58	(9)	(13.5)
Net income for the period	₩ 219	₩ 190	₩ (30)	(13.6)%

Operating Revenues

The following table presents a breakdown of our operating revenues and changes therein for the first quarter of 2016 and the first quarter of 2017.

	For three months ended March 31,		Changes 1Q 2016 versus 1Q 2017	
	2016	2017	Amount	%
	(In billions of Won or percentages)			
Premium income	₩ 2,049	₩ 1,956	₩ (93)	(4.5)%
Individual insurance:				
Protection-type products	1,165	1,103	(61)	(5.3)
Annuities	590	591	1	0.2
Savings insurance	266	232	(34)	(12.7)
Group insurance:				
Pure protection	26	27	1	3.6
Savings insurance	3	3	(0)	(4.9)
Reinsurance income	23	25	2	10.4
Interest income	657	636	(22)	(3.3)
Gain on valuation and disposal of financial instruments	545	1,330	784	143.8
Gain on foreign currency transaction	54	80	25	46.8
Fees and commission income	54	50	(3)	(6.0)
Dividend income	105	115	11	10.3
Rental income	24	23	(1)	(2.4)
Separate account commission earned	211	207	(5)	(2.3)
Separate account income	42	59	17	39.1
Other operating income	183	190	7	3.6
Total operating revenues	₩ 3,947	₩ 4,670	₩ 722	18.3%

Our operating revenues increased by 18.3%, or Won 722 billion, from Won 3,947 billion in the first quarter of 2016 to Won 4,670 billion in the first quarter of 2017, primarily due to increases in our gain on valuation and disposal of financial instruments and, to a lesser extent, gain on foreign currency transaction, which were offset in part by decreases in premium income and interest income.

Gain on valuation and disposal of financial instruments. Our gain on valuation and disposal of financial instruments increased by 143.8%, or Won 784 billion, from Won 545 billion in the first quarter of 2016 to Won 1,330 billion in the first quarter of 2017, principally due to gains on valuation and disposal of derivatives. Primarily due to fluctuations in the Won against the U.S. dollar as described below, our gain on valuation of derivatives increased by 212.5%, or Won 749 billion, from Won 352 billion in the first quarter of 2016 to Won 1,101 billion in the first quarter of 2017, and our gain on disposal of derivatives increased by 90.6%, or Won 52 billion, from Won 58 billion in the first quarter of 2016 to Won 110 billion in the first quarter of 2017. We hold derivative instruments primarily for the purpose of hedging our foreign exchange and, to a lesser extent, interest rate exposures as part of our risk management activities in both our life insurance and securities businesses.

On a net basis, after adjusting for losses on valuation and disposal of derivatives, our net gain on valuation of derivatives increased by 280.2%, or Won 723 billion, from Won 258 billion in the first quarter of 2016 to Won 981 billion in the first quarter of 2017. We also recognized a net loss on disposal of derivatives of Won 53 billion in the first quarter of 2016 compared to a net gain on disposal of derivatives of Won 43 billion in the first quarter of 2017. Against such net impacts, we recognized a net loss on foreign currency transaction (which includes net loss on foreign currency translation) of Won 211 billion in the first quarter of 2016 and Won 997 billion in the first quarter of 2017, as described below.

Gain on foreign currency transaction. Our gain on foreign currency transaction (which includes gain on foreign currency translation) increased by 46.8%, or Won 25 billion, from Won 54 billion in the first quarter of 2016 to Won 80 billion in the first quarter of 2017, as the Won appreciated against the U.S. dollar in both the first quarter of 2016 and the first quarter of 2017. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won appreciated from Won 1,172.0 to US$1.00 as of December 31, 2015 to Won 1,153.5 to US$1.00 as of March 31, 2016, and Won 1,208.5 to US$1.00 as of December 31, 2016 to Won 1,116.1 to US$1.00 as of March 31, 2017.

On a net basis, after adjusting for loss on foreign currency transaction (which includes loss on foreign currency translation), our net loss on foreign currency transaction (which includes net loss on foreign currency translation) increased by 371.7%, or Won 786 billion, from Won 211 billion in the first quarter of 2016 to Won 997 billion in the first quarter of 2017.

Premium income. Our premium income decreased by 4.5%, or Won 93 billion, from Won 2,049 billion in the first quarter of 2016 to Won 1,956 billion in the first quarter of 2017, primarily due to decreases in premiums from our protection-type insurance products and, to a lesser extent, savings insurance products. Premium income from our protection-type insurance products decreased by 5.3%, or Won 61 billion, from Won 1,165 billion in the first quarter of 2016 to Won 1,103 billion in the first quarter of 2017, which was attributable mainly to our decision in the fourth quarter of 2016 to discontinue selling certain protection-type insurance products that return to the policyholder at expiration a predetermined portion of the premiums paid by the policyholder throughout the coverage period, as part of our efforts to mitigate our exposure to interest rate risks. In the first quarter of 2016, we also recorded a relatively high sales volume for whole life insurance products with high cash value as we strategically focused our marketing efforts on sales of such products in anticipation of an increase in expected interest rates. Premium income from savings insurance products, which are often sold through our bancassurance channel and offer lower margins, decreased by 12.7%, or Won

34 billion, from Won 266 billion in the first quarter of 2016 to Won 232 billion in the first quarter of 2017, as we maintained our marketing focus to sell higher-margin insurance products. Premium income from annuities remained relatively stable, increasing by 0.2%, or Won 1 billion, from Won 590 billion in the first quarter of 2016 to Won 591 billion in the first quarter of 2017.

Interest income. Our interest income decreased by 3.3%, or Won 22 billion, from 657 billion in the first quarter of 2016 to Won 636 billion in the first quarter of 2017, primarily as a result of a decrease in interest income from available-for-sale financial assets, which was offset in part by an increase in interest income from held-to-maturity financial assets. The average yield from our investments in available-for-sale financial assets decreased in the first quarter of 2017 compared to the first quarter of 2016, principally reflecting a decrease in market interest rates in Korea in the first quarter of 2017 compared to the first quarter of 2016. However, the average balance of our investments in held-to-maturity financial assets increased in the first quarter of 2017 compared to the first quarter of 2016 due mainly to purchases of additional overseas securities, which in turn resulted in an increase in interest income from held-to-maturity financial assets despite a generally lower interest rate environment in the first quarter of 2017 compared to the first quarter of 2016.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for the first quarter of 2016 and the first quarter of 2017.

	For three months ended March 31,		Changes 1Q 2016 versus 1Q 2017	
	2016	2017	Amount	%
	(In billions of Won or percentages)			
Provision for liabilities under insurance contracts	₩ 988	₩ 787	₩ (201)	(20.3)%
Insurance claims paid	1,302	1,404	103	7.9
Reinsurance premium expenses	23	26	3	11.1
Insurance operating expenses	208	197	(11)	(5.4)
Amortization of deferred acquisition costs	220	202	(18)	(8.3)
Investment administrative expenses	23	24	0	1.7
Interest expenses	45	26	(19)	(42.1)
Loss on valuation and disposal of financial instruments	301	302	1	0.3
Loss on foreign currency transaction	266	1,077	811	305.2
Separate account commission paid	8	6	(2)	(25.3)
Separate account expenses	42	59	17	39.1
Other operating expenses	244	261	17	7.2
Total operating expenses	₩ 3,669	₩ 4,370	₩ 700	19.1%

Our operating expenses increased by 19.1%, or Won 700 billion, from Won 3,669 billion in the first quarter of 2016 to Won 4,370 billion in the first quarter of 2017, primarily due to increases in loss on foreign currency transaction and, to a lesser extent, insurance claims paid, which were offset in part by decreases in provision for liabilities under insurance contracts, interest expenses and amortization of deferred acquisition costs.

Loss on foreign currency transaction. Our loss on foreign currency transaction (including loss on foreign currency translation) increased by 305.2%, or Won 811 billion, from Won 266 billion in the first quarter of 2016 to Won 1,077 billion in the first quarter of 2017, as the Won appreciated against the U.S. dollar in both the first quarter of 2016 and the first quarter of 2017 as described above.

Insurance claims paid. Our insurance claims paid increased by 7.9%, or Won 103 billion, from Won 1,302 billion in the first quarter of 2016 to Won 1,404 billion in the first quarter of 2017, principally as a result of increases in payments of refunds related to surrenders and withdrawals of insurance policies and, to a lesser extent, benefits payments.

Our payments of refunds related to surrenders and withdrawals of insurance policies increased by 8.9%, or Won 97 billion, from Won 1,089 billion in the first quarter of 2016 to Won 1,185 billion in the first quarter of 2017, mainly reflecting the general growth of our business. Our lapse and surrender ratio, which is the ratio of the aggregate face amount of all policies that were terminated or expired and were not renewed during a period to the sum of the aggregate face amount of policies in force at the beginning of such period and the aggregate face amount of policies sold during such period, remained constant at 2.2% in the first quarter of 2016 and the first quarter of 2017. In terms of product category, such increase in payments of refunds was attributable primarily to a 52.7%, or Won 50 billion, increase in payments of refunds on savings insurance policies from Won 95 billion in the first quarter of 2016 to Won 145 billion in the first quarter of 2017, a 6.0%, or Won 30 billion, increase in payments of refunds on protection-type insurance policies from Won 495 billion in the first quarter of 2016 to Won 525 billion in the first quarter of 2017, and a 3.7%, or Won 18 billion, increase in payments of refunds on annuities from Won 478 billion in the first quarter of 2016 to Won 495 billion in the first quarter of 2017.

Our benefits payments increased by 2.9%, or Won 6 billion, from Won 207 billion in the first quarter of 2016 to Won 213 billion in the first quarter of 2017, mainly reflecting the general growth of our business and an increase in benefits payments on savings insurance policies, group pure protection policies and annuities, which were offset in part by a decrease in benefits payments on protection-type insurance policies.

Provision for liabilities under insurance contracts. Our provision for liabilities under insurance contracts decreased by 20.3%, or Won 201 billion, from Won 988 billion in the first quarter of 2016 to Won 787 billion in the first quarter of 2017, principally as a result of a decrease in provision for premium reserves reflecting an increase in insurance claims paid as described above. Our provision for premium reserves decreased by 18.8%, or Won 188 billion, from Won 1,001 billion in the first quarter of 2016 to Won 813 billion in the first quarter of 2017, primarily due to a 56.3%, or Won 94 billion, decrease in provision for premium reserves related to savings insurance policies from Won 166 billion in the first quarter of 2016 to Won 73 billion in the first quarter of 2017, mainly reflecting a decrease in new issuances of savings insurance policies. In addition, provision for premium reserves related to protection-type insurance policies decreased by 10.9%, or Won 61 billion, from Won 565 billion in the first quarter of 2016 to Won 503 billion in the first quarter of 2017, which primarily reflected a corresponding decrease in premium income from protection-type insurance policies.

Interest expenses. Our interest expenses decreased by 42.1%, or Won 19 billion, from Won 45 billion in the first quarter of 2016 to Won 26 billion in the first quarter of 2017, primarily due to decreases in interest expenses related to derivatives and, to a lesser extent, borrowings, both primarily incurred in connection with our securities business. Our interest expenses related to derivatives decreased by 46.8%, or Won 14 billion, from Won 31 billion in the first quarter of 2016 to Won 16 billion in the first quarter of 2017. Our interest expenses related to borrowings decreased by 37.8%, or Won 4 billion, from Won 11 billion in the first quarter of 2016 to Won 7 billion in the first quarter of 2017. Such decreases primarily reflected decreases in the amounts of derivatives transactions entered into, and borrowings incurred, related to our securities business.

Amortization of deferred acquisition costs. Our amortization of deferred acquisition costs decreased by 8.3%, or Won 18 billion, from Won 220 billion in the first quarter of 2016 to Won 202 billion in the first quarter of 2017, primarily due to a decrease in deferred acquisition costs in recent years, which in turn mainly reflected a corresponding decrease in sales of new insurance policies over the same period of time.

Operating Income

Due to the factors described above, our operating income increased by 7.9%, or Won 22 billion, from Won 278 billion in the first quarter of 2016 to Won 300 billion in the first quarter of 2017. Our operating margin decreased from 7.0% in the first quarter of 2016 to 6.4% in the first quarter of 2017.

Non-operating Income

Our non-operating income decreased by 28.7%, or Won 5 billion, from Won 16 billion in the first quarter of 2016 to Won 12 billion in the first quarter of 2017, primarily due to a refund of real estate taxes in the first quarter of 2016 compared to no such refund in the first quarter of 2017.

Non-operating Expenses

Our non-operating expenses increased by 731.9%, or Won 56 billion, from Won 8 billion in the first quarter of 2016 to Won 64 billion in the first quarter of 2017, primarily due to our decision to recognize accrued interest expenses in the first quarter of 2017 related to delays in dividend payments to policyholders of certain participating annuities and other insurance products.

Income Tax Expenses

Our income tax expenses decreased by 13.5%, or Won 9 billion, from Won 68 billion in the first quarter of 2016 to Won 58 billion in the first quarter of 2017, primarily as a result of a 13.6%, or Won 39 billion, decrease in our net income before income tax expenses from Won 287 billion in the first quarter of 2016 to Won 248 billion in the first quarter of 2017. See Note 48 of the notes to our unaudited condensed consolidated interim financial statements. Our effective tax rate remained constant at 23.55% in the first quarters of 2016 and 2017.

Net Income for the Period

Due to the factors described above, our net income for the period decreased by 13.6%, or Won 30 billion, from Won 219 billion in the first quarter of 2016 to Won 190 billion in the first quarter of 2017. Our net margin decreased from 5.6% in the first quarter of 2016 to 4.1% in the first quarter of 2017.

Results of Operations – 2016 compared to 2015

The following table presents selected statement of comprehensive income data and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won or percentages)			
Operating revenues	₩ 14,255	₩ 14,442	₩ 187	1.3%
Operating expenses	13,340	13,755	415	3.1
Operating income	915	687	(228)	(24.9)
Non-operating income	23	53	29	125.7
Non-operating expenses	61	27	(34)	(55.3)
Net income before income tax expenses	877	712	(165)	(18.8)
Income tax expenses	233	169	(64)	(27.6)
Net income for the current year	₩ 644	₩ 543	₩(101)	(15.7)%

Operating Revenues

The following table presents a breakdown of our operating revenues and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won or percentages)			
Premium income	₩ 7,836	₩ 7,901	₩ 65	0.8%
Individual insurance:				
Protection-type products	4,297	4,506	210	4.9
Annuities	2,420	2,266	(154)	(6.3)
Savings insurance	1,007	1,013	7	0.7
Group insurance:				
Pure protection	101	103	3	2.5
Savings insurance	12	12	(0)	(2.7)
Reinsurance income	86	93	7	8.2
Interest income	2,650	2,630	(20)	(0.8)
Gain on valuation and disposal of financial instruments	909	911	2	0.3
Gain on foreign currency transaction	561	637	76	13.5
Fees and commission income	234	218	(16)	(6.9)
Dividend income	266	301	35	13.0
Rental income	97	96	(2)	(1.6)
Separate account commission earned	799	821	22	2.8
Separate account income	128	124	(4)	(3.2)
Other operating income	688	710	22	3.2
Total operating revenues	₩ 14,255	₩ 14,442	₩ 187	1.3%

Our operating revenues increased by 1.3%, or Won 187 billion, from Won 14,255 billion in 2015 to Won 14,442 billion in 2016, primarily due to increases in our gain on foreign currency transaction, premium income and dividend income, which were offset in part by decreases in interest income and fees and commission income.

Gain on foreign currency transaction. Our gain on foreign currency transaction (which includes gain on foreign currency translation) increased by 13.5%, or Won 76 billion, from Won 561 billion in 2015 to Won 637 billion in 2016, as the Won depreciated against the U.S. dollar in both 2015 and 2016. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won depreciated from Won 1,099.2 to US$1.00 as of December 31, 2014 to Won 1,172.0 to US$1.00 as of December 31, 2015 and further depreciated, but to a lesser extent, to Won 1,208.5 to US$1.00 as of December 31, 2016.

On a net basis, after adjusting for loss on foreign currency transaction (which includes loss on foreign currency translation), our net gain on foreign currency transaction (which includes net gain on foreign currency translation) increased by 2.6%, or Won 12 billion, from Won 466 billion in 2015 to Won 479 billion in 2016. Against such net gains, we recognized net losses on valuation of derivatives of Won 394 billion in 2015 and Won 522 billion in 2016, as well as a net loss on disposal of derivatives of Won 89 billion in 2015 compared to a net gain on disposal of derivatives of Won 45 billion in 2016.

Premium income. Our premium income increased by 0.8%, or Won 65 billion, from Won 7,836 billion in 2015 to Won 7,901 billion in 2016, primarily due to increases in premiums from our protection-type products and, to a lesser extent, savings insurance products, which were offset in part by a decrease in premiums from annuities. Premium income from our protection-type products increased by 4.9%, or Won 210 billion, from Won 4,297 billion in 2015 to Won 4,506 billion in 2016, which was attributable mainly to the marketing focus of our financial planner channel on sales of higher-margin protection-type insurance products, particularly whole-life insurance and critical illness insurance products. Premium income from savings insurance products, which are often sold through our bancassurance channel and offer lower margins, remained relatively stable in 2016, increasing by 0.7%, or Won 7 billion, from Won 1,007 billion in 2015 to Won 1,013 billion in 2016. The marketing focus of our financial planner channels on sales of higher-margin products contributed to a decrease in premium income from our annuities by 6.3%, or Won 154 billion, from Won 2,420 billion in 2015 to Won 2,266 billion in 2016.

Dividend income. Our dividend income increased by 13.0%, or Won 35 billion, from Won 266 billion in 2015 to Won 301 billion in 2016, primarily due to increases in dividends from our general account investments in beneficiary certificates and overseas securities.

Interest income. Our interest income decreased by 0.8%, or Won 20 billion, from 2,650 billion in 2015 to Won 2,630 billion in 2016, primarily as a result of decreases in interest income from available-for-sale financial assets and loans, which were offset in part by an increase in interest income from held-to-maturity financial assets. The average yield from our investments in available-for-sale financial assets and loans decreased in 2016 compared to 2015, principally reflecting a decrease in market interest rates in Korea in the first three quarters of 2016 prior to a recovery in the fourth quarter of 2016. However, the average balance of our investments in held-to-maturity financial assets increased in 2016 compared to 2015 due mainly to purchases of additional overseas securities, which in turn resulted in an increase in interest income from such financial assets despite a generally low interest rate environment in 2016.

Fees and commission income. Our fees and commission income, which consists primarily of fees and commission income from our securities business, decreased by 6.9%, or Won 16 billion, from Won 234 billion in 2015 to Won 218 billion in 2016, mainly due to decreases in brokerage commissions and, to a lesser extent, underwriting commissions.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for 2015 and 2016.

	For the year ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won or percentages)			
Provision for liabilities under insurance contracts	₩ 3,863	₩ 3,896(1)	₩ 33	0.8%
Insurance claims paid	4,994	5,222	228	4.6
Reinsurance premium expenses	91	96	5	5.3
Insurance operating expenses	830	864	35	4.2
Amortization of deferred acquisition costs	867	844	(23)	(2.7)
Investment administrative expenses	105	107	2	2.3
Interest expenses	130	152	22	16.6
Loss on valuation and disposal of financial instruments	1,255	1,288	33	2.6
Loss on foreign currency transaction	94	158	64	67.7
Separate account commission paid	26	27	1	3.5
Separate account expenses	128	124	(4)	(3.2)
Other operating expenses	957	978	21	2.2
Total operating expenses	₩ 13,340	₩ 13,755	₩ 415	3.1%

(1) Includes Won 63 billion of provisions recorded in 2016 relating to overdue death benefits (including related interest expenses) in respect of certain suicide claims. See " Risk Factors — Risks Relating to Our Business — We may become subject to legal claims and regulatory actions which, if significant, could harm our business, performance and reputation."

Our operating expenses increased by 3.1%, or Won 415 billion, from Won 13,340 billion in 2015 to Won 13,755 billion in 2016, primarily due to increases in insurance claims paid, loss on foreign currency transaction and insurance operating expenses, which were offset in part by a decrease in amortization of deferred acquisition costs.

Insurance claims paid. Our insurance claims paid increased by 4.6%, or Won 228 billion, from Won 4,994 billion in 2015 to Won 5,222 billion in 2016, principally as a result of increases in payments of refunds related to surrenders and withdrawals of insurance policies.

Our payments of refunds increased by 5.6%, or Won 234 billion, from Won 4,183 billion in 2015 to Won 4,417 billion in 2016, mainly reflecting the general growth of our business, particularly from higher sales of protection-type insurance and savings insurance policies in recent years, as well as a slight increase in the rate of surrenders and withdrawals. Our lapse and surrender ratio increased slightly from 7.8% in 2015 to 7.9% in 2016. In terms of product category, such increase in payments of refunds was attributable primarily to a 42.2%, or Won 149 billion, increase in payments of refunds on savings insurance policies from Won 352 billion in 2015 to Won 500 billion in 2016, as well as a 4.0%, or Won 74 billion, increase in payments of refunds on protection-type insurance policies from Won 1,859 billion in 2015 to Won 1,933 billion in 2016 and a 0.5%, or Won 9 billion, increase in payments of refunds on annuities from Won 1,892 billion in 2015 to Won 1,901 billion in 2016.

Our benefits payments remained relatively stable and decreased by 0.3%, or Won 2 billion, from Won 783 billion in 2015 to Won 781 billion in 2016.

Loss on foreign currency transaction. Our loss on foreign currency transaction (including loss on foreign currency translation) increased by 67.7%, or Won 64 billion, from Won 94 billion in 2015 to Won 158 billion in 2016, as the Won depreciated against the Dollar in both 2015 and 2016 as described above.

Insurance operating expenses. Our insurance operating expenses increased by 4.2%, or Won 35 billion, from Won 830 billion in 2015 to Won 864 billion in 2016, primarily due to increases in bonus and severance benefit expenses. Our bonus expenses increased by 18.1%, or Won 16 billion, from Won 87 billion in 2015 to Won 103 billion in 2016, primarily due to compensation related to the abolishment of our paid leave programs. Our severance benefit expenses increased by 31.2%, or Won 9 billion, from Won 28 billion in 2015 to Won 37 billion in 2016, principally as a result of payment of severance benefits recognized in 2016 to the former employees of our call center, the operation of which was spun off and outsourced to our newly established consolidated subsidiary, KCA Services, as of the beginning of 2017. Our net policy acquisition costs (after adjusting for deferred acquisition cost) increased by 2.1%, or Won 3 billion, from Won 164 billion in 2015 to Won 168 billion in 2016, primarily due to an increase in sales commissions resulting from the marketing focus of our financial planner channel on sales of higher-margin protection-type insurance products.

Amortization of deferred acquisition costs. Our amortization of deferred acquisition costs decreased by 2.7%, or Won 23 billion, from Won 867 billion in 2015 to Won 844 billion in 2016, primarily due to a decrease in deferred acquisition costs in recent years.

Operating Income

Due to the factors described above, our operating income decreased by 24.9%, or Won 228 billion, from Won 915 billion in 2015 to Won 687 billion in 2016. Our operating margin decreased from 6.4% in 2015 to 4.8% in 2016.

Non-operating Income

Our non-operating income increased by 125.7%, or Won 29 billion, from Won 23 billion in 2015 to Won 53 billion in 2016, primarily due to an increase in gain on valuation of investments in joint ventures and associates. Gain on valuation of investments in joint ventures and associates increased by 161.6%, or Won 23 billion, from Won 14 billion in 2015 to Won 36 billion in 2016 primarily due to the improved results of operations of such entities in the aggregate. See Note 12 of the notes to our annual consolidated financial statements for 2016 and 2015.

Non-operating Expenses

Our non-operating expenses decreased by 55.3%, or Won 34 billion, from Won 61 billion in 2015 to Won 27 billion in 2016, primarily due to decreases in impairment of property and equipment, donations and impairment of investment properties. We recognized impairment of property and equipment of Won 19 billion in 2015 related mainly to a decrease in the fair value of certain of our non-investment real properties as measured by our periodic revaluation of such properties, compared to less than 1 billion in 2016. Our donations decreased by 27.8%, or Won 6 billion, from Won 23 billion in 2015 to Won 17 billion in 2016. We also recognized impairment of investment properties of Won 5 billion in 2015 related mainly to a decrease in the fair value of certain of our real property investments as measured by our periodic revaluation of such properties, compared to less than Won 1 billion in 2016.

Income Tax Expenses

Our income tax expenses decreased by 27.6%, or Won 64 billion, from Won 233 billion in 2015 to Won 169 billion in 2016, primarily as a result of a 18.8%, or Won 165 billion, decrease in our net income before income tax expenses from Won 877 billion in 2015 to Won 712 billion in 2016. See Note 49 of the notes to our annual consolidated financial statements for 2016 and 2015. Our effective tax rate decreased from 26.59% in 2015 to 23.72% in 2016.

Net Income for the Current Year

Due to the factors described above, our net income for the current year decreased by 15.7%, or Won 101 billion, from Won 644 billion in 2015 to Won 543 billion in 2016. Our net margin decreased from 4.5% in 2015 to 3.8% in 2016.

Results of Operations – 2015 compared to 2014

The following table presents selected statement of comprehensive income data and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won or percentages)			
Operating revenues	₩13,706	₩14,255	₩ 550	4.0%
Operating expenses	13,052	13,340	288	2.2
Operating income	654	915	261	40.0
Non-operating income	33	23	(9)	(28.8)
Non-operating expenses	57	61	4	6.6
Net income before income tax expenses	629	877	248	39.5
Income tax expenses	112	233	122	108.9
Net income for the current year	₩ 517	₩ 644	₩ 127	24.5%

Operating Revenues

The following table presents a breakdown of our operating revenues and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won or percentages)			
Premium income	₩ 8,078	₩ 7,836	₩ (242)	(3.0)%
Individual insurance:				
Protection-type products	4,031	4,297	266	6.6
Annuities	2,986	2,420	(566)	(19.0)
Savings insurance	950	1,007	56	5.9
Group insurance:				
Pure protection	99	101	2	1.7
Savings insurance	12	12	(0)	(1.0)
Reinsurance income	87	86	(0)	(0.6)
Interest income	2,636	2,650	14	0.5
Gain on valuation and disposal of financial instruments	673	909	236	35.1
Gain on foreign currency transaction	290	561	271	93.7
Fees and commission income	147	234	87	58.9
Dividend income	178	266	88	49.3
Rental income	99	97	(2)	(2.4)
Separate account commission earned	754	799	45	6.0
Separate account income	112	128	16	14.0
Other operating income	651	688	37	5.8
Total operating revenues	₩ 13,706	₩ 14,255	₩ 550	4.0%

Our operating revenues increased by 4.0%, or Won 550 billion, from Won 13,706 billion in 2014 to Won 14,255 billion in 2015, primarily due to increases in gain on foreign currency transaction, gain on valuation and disposal of financial instruments, dividend income and fees and commission income, which were offset in part by a decrease in premium income.

Gain on foreign currency transaction. Our gain on foreign currency transaction (which includes gain on foreign currency translation) increased by 93.7%, or Won 271 billion, from Won 290 billion in 2014 to Won 561 billion in 2015, as the Won depreciated against the Dollar in both 2014 and 2015. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won depreciated from Won 1,055.3 to US$1.00 as of December 31, 2013 to Won 1,099.2 to US$1.00 as of December 31, 2014 and depreciated further to a greater degree to Won 1,172.0 to US$1.00 as of December 31, 2015.

On a net basis, after adjusting for loss on foreign currency transaction (which includes loss on foreign currency translation), our net gain on foreign currency transaction (which includes net gain on foreign currency translation) increased by 109.3%, or Won 244 billion, from Won 223 billion in 2014 to Won 466 billion in 2015. Against such net gains, we recognized net losses on valuation of derivatives of Won 214 billion in 2014 and Won 394 billion in 2015, and a net gain on disposal of derivatives of Won 21 billion in 2014 compared to a net loss on disposal of derivatives of Won 89 billion in 2015.

Gain on valuation and disposal of financial instruments. Gain on valuation and disposal of financial instruments increased by 35.1%, or Won 236 billion, from Won 673 billion in 2014 to Won 909 billion in 2015, primarily due to increases in gains on disposal of available-for-sale financial assets and derivatives. Our gain on disposal of available-for-sale financial assets increased by 52.4%, or Won 119 billion, from Won 226 billion in 2014 to Won 345 billion in 2015, mainly due to our general account investment portfolio rebalancing activities, pursuant to which we sold a greater volume of available-for-sale financial assets in 2015 compared to 2014. Our gain on disposal of derivatives increased by 89.4%, or Won 107 billion, from Won 120 billion in 2014 to Won 227 billion in 2015 as the Won depreciated against the U.S. dollar in both 2014 and 2015 as described above.

Dividend income. Our dividend income increased by 49.3%, or Won 88 billion, from Won 178 billion in 2014 to Won 266 billion in 2015, primarily due to increases in dividends from our general account investments in beneficiary certificates, equity securities and overseas securities.

Fees and commission income. Our fees and commission income, which consists primarily of fees and commission income from our securities business, increased by 58.9%, or Won 87 billion, from Won 147 billion in 2014 to Won 234 billion in 2015, mainly due to increases in brokerage commissions and mergers and acquisitions advisory fees.

Premium income. Our premium income decreased by 3.0%, or Won 242 billion, from Won 8,078 billion in 2014 to Won 7,836 billion in 2015, primarily due to a decrease in premiums from our annuities, which was offset in part by increases in premiums from our protection-type insurance products and, to a lesser extent, savings insurance products. Premium income from annuities decreased by 19.0%, or Won 566 billion, from Won 2,986 billion in 2014 to Won 2,420 billion in 2015, which was attributable mainly to the marketing focus of our financial planner channel on sales of higher-margin insurance products. In part due to such efforts, premium income from our protection-type insurance products increased by 6.6%, or Won 266 billion, from Won 4,031 billion in 2014 to Won 4,297 billion in 2015. Premium income from our savings insurance products increased by 5.9%, or Won 56 billion, from Won 950 billion in 2014 to Won 1,007 billion in 2015 principally due to an increase in monthly premium payments by existing policyholders, which principally reflected strategic adjustments in our crediting rates to incentivize such policyholders to increase the level of their premium payments.

Operating Expenses

The following table presents a breakdown of our operating expenses and changes therein for 2014 and 2015.

	For the year ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won or percentages)			
Provision for liabilities under insurance contracts	₩ 4,396	₩ 3,863	₩ (533)	(12.1)%
Insurance claims paid	4,676	4,994	318	6.8
Reinsurance premium expenses	92	91	(0)	(0.3)
Insurance operating expenses	876	830	(47)	(5.3)
Amortization of deferred acquisition costs	910	867	(43)	(4.7)
Investment administrative expenses	117	105	(12)	(10.4)
Interest expenses	132	130	(2)	(1.2)
Loss on valuation and disposal of financial instruments	743	1,255	511	68.8
Loss on foreign currency transaction	67	94	28	41.5
Separate account commission paid	26	26	(0)	(1.0)
Separate account expenses	112	128	16	14.0
Other operating expenses	905	957	52	5.7
Total operating expenses	₩ 13,052	₩ 13,340	₩ 288	2.2%

Our operating expenses increased by 2.2%, or Won 288 billion, from Won 13,052 billion in 2014 to Won 13,340 billion in 2015, primarily due to increases in loss on valuation and disposal of financial instruments and insurance claims paid, which were offset in part by decreases in provision for liabilities under insurance contracts, insurance operating expenses and amortization of deferred acquisition costs.

Loss on valuation and disposal of financial instruments. Our loss on valuation and disposal of financial instruments increased by 68.8%, or Won 511 billion, from Won 743 billion in 2014 to Won 1,255 billion in 2015, primarily due to increases in loss on disposal and valuation of derivatives and, to a lesser extent, loss on disposal of available-for-sale financial assets. Loss on disposal of derivatives, which related mainly to hedging activities of our securities business, increased by 219.1%, or Won 217 billion, from Won 99 billion in 2014 to Won 316 billion in 2015, and loss on valuation of derivatives, which related mainly to hedging activities of our life insurance business, increased by 50.3%, or Won 173 billion, from Won 344 billion in 2014 to Won 517 billion in 2015. Our loss on disposal of available-for-sale financial assets increased by 125.4%, or Won 86 billion, from Won 68 billion in 2014 to Won 154 billion in 2015, primarily due to our disposal of our general account investment portfolio rebalancing activities, pursuant to which we sold a greater volume of available-for-sale financial assets in 2015 compared to 2014.

Insurance claims paid. Our insurance claims paid increased by 6.8%, or Won 318 billion, from Won 4,676 billion in 2014 to Won 4,994 billion in 2015, principally as a result of increases in payments of refunds related to surrenders and withdrawals of insurance policies as well as benefits payments.

Our payments of refunds increased by 5.3%, or Won 209 billion, from Won 3,974 billion in 2014 to Won 4,182 billion in 2015, mainly reflecting the general growth of our business, which was offset in part by a reduction in the rate of surrenders and withdrawals. Our lapse and surrender ratio decreased from 8.4% in 2014 to 7.8% in 2015. In terms of product category, such increase was attributable primarily to a 9.7%, or Won 167 billion, increase in payments of refunds on annuities from Won 1,725 billion in 2014 to Won 1,892 billion in 2015, as well as a 17.1%, or Won 51 billion, increase in payments of refunds on savings insurance policies from Won 300 billion in 2014 to Won 352 billion in 2015. Such increases were in turn slightly offset by a 0.3%, or Won 6 billion, decrease in payments of refunds on protection-type insurance policies from Won 1,864 billion in 2014 to Won 1,859 billion in 2015.

Our benefits payments increased by 15.6%, or Won 106 billion, from Won 677 billion in 2014 to Won 783 billion in 2015, mainly reflecting an increase in benefits payments on individual insurance policies, particularly protection-type insurance policies, which were offset in part by a decrease in benefits payments on group insurance policies, particularly pure protection policies.

Provision for liabilities under insurance contracts. Our provision for liabilities under insurance contracts decreased by 12.1%, or Won 533 billion, from Won 4,396 billion in 2014 to Won 3,863 billion in 2015, principally as a result of a decrease in provision for premium reserves reflecting an increase in insurance claims paid as described above. Our provision for premium reserves decreased by 13.7%, or Won 581 billion, from Won 4,240 billion in 2014 to Won 3,658 billion in 2015, primarily due to a 41.5%, or Won 784 billion, decrease in provision for premium reserves related to annuities from Won 1,891 billion in 2014 to Won 1,107 billion in 2015, mainly reflecting a decrease in new issuances of annuities. Such decrease was offset in part by a 10.5%, or Won 188 billion, increase in provision for premium reserves related to protection-type products from Won 1,785 billion in 2014 to Won 1,972 billion in 2015, which mainly reflected an increase in new issuances of such policies as we proactively strived to sell more higher-margin insurance products.

Insurance operating expenses. Our insurance operating expenses decreased by 5.3%, or Won 47 billion, from Won 876 billion in 2014 to Won 830 billion in 2015, primarily due to a decrease in severance benefit expenses, which was offset in part by an increase in net policy acquisition costs (after deferral). Our severance benefit expenses decreased by 76.7%, or Won 94 billion, from Won 122 billion in 2014 to Won 28 billion in 2015, primarily due to significant severance benefits paid in 2014 in connection with our early retirement program. Our net policy acquisition costs (after adjusting for deferred acquisition cost) increased by 38.5%, or Won 46 billion, from Won 119 billion in 2014 to Won 164 billion in 2015, primarily due to a change in our deferred acquisition cost recognition policy in 2013, the effect of which caused a temporary increase in deferred acquisition costs in 2014.

Amortization of deferred acquisition costs. Our amortization of deferred acquisition costs decreased by 4.7%, or Won 43 billion, from Won 910 billion in 2014 to Won 867 billion in 2015, primarily due to a decrease in deferred acquisition costs in recent years.

Operating Income

Due to the factors described above, our operating income increased by 40.0%, or Won 261 billion, from Won 654 billion in 2014 to Won 915 billion in 2015. Our operating margin increased from 4.8% in 2014 to 6.4% in 2015.

Non-operating Income

Our non-operating income decreased by 28.8%, or Won 9 billion, from Won 33 billion in 2014 to Won 23 billion in 2015, primarily due to decreases in gains on valuation of investments in joint ventures and associates, disposal of investment properties and disposal of non-current assets held for sale. Gain on valuation of investments in joint ventures and associates decreased by 31.5%, or Won 6 billion, from Won 20 billion in 2014 to Won 14 billion in 2015. We recognized Won 2 billion of gain on disposal of investment properties in 2014, compared to less than Won 1 billion in 2015. We also recognized Won 2 billion of gain on disposal of non-current assets held for sale in 2014, compared to less than Won 1 billion in 2015.

Non-operating Expenses

Our non-operating expenses increased by 6.6%, or Won 4 billion, from Won 57 billion in 2014 to Won 61 billion in 2015, primarily due to an increase in impairment of property and equipment, which was offset in part by a decrease in loss on valuation of investments in joint ventures and associates. Impairment of property and equipment increased significantly from less than Won 1 billion in 2014 to Won 19 billion in 2015, principally as a result of a decrease in the fair value of certain of our non-investment real properties as measured by our periodic revaluation of such properties. Loss on valuation of investments in joint ventures and associates decreased significantly from Won 14 billion in 2014 to less than Won 1 billion in 2015.

Income Tax Expenses

Our income tax expenses increased by 108.9%, or Won 122 billion, from Won 112 billion in 2014 to Won 233 billion in 2015, primarily as a result of a 39.5%, or Won 248 billion, increase in our net income before income tax expenses from Won 629 billion in 2014 to Won 877 billion in 2015, as well as a decrease in adjustments related to additional refund of income taxes from Won 43 billion in 2014 to Won 5 billion in 2015. Our effective tax rate increased from 16.11% in 2014 to 26.59% in 2015. See Note 49 of the notes to our annual consolidated financial statements for 2015 and 2014.

Net Income for the Current Year

Due to the factors described above, our net income for the current year increased by 24.5%, or Won 127 billion, from Won 517 billion in 2014 to Won 644 billion in 2015. Our net margin increased from 3.8% in 2014 to 4.5% in 2015.

Liquidity and Capital Resources

Our principal cash outflows relate to the liabilities associated with our various life insurance products, as well as our general account investment activities, other investment activities related to our securities business, operating expenses and income taxes. Cash outflows arising from our insurance activities primarily relate to claim and benefit payments under these insurance products, including payments of refunds related to surrenders and withdrawals of policies as well as claim and benefit payments periodically under annuities or upon the occurrence of covered events or the expiration of policies. We also use cash for our dividend payments on our common shares.

Our principal cash inflows come from insurance premiums. The primary liquidity concern with respect to these cash inflows is the risk of early policyholder surrender or withdrawal. Cash inflows also result from proceeds from sales of investment assets and interest and dividend income related to our general account investment portfolio. See "Business — General Account Investments." The primary liquidity concerns with respect to these cash inflows are the risk of default by debtors, interest rate changes and other market volatilities.

Liquidity refers to our ability to meet our cash needs. Liquidity is of critical importance to life insurance and securities companies. Most failures of financial institutions have occurred in large part due to insufficient liquidity resulting from adverse circumstances. We manage our liquidity risk through a set of liquidity risk management policies that are intended to maintain liquidity by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from our policyholders and others. We also manage liquidity by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of external funding we believe we are able to obtain. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability payments on time and fund all investment opportunities. We endeavor to maintain substantial excess liquidity to meet a broad range of potential cash outflows in a stressed environment. For an explanation of how we manage our liquidity risk, see "Risk Management — Liquidity Risk Management."

Sources of liquidity to meet unexpected cash outflows are available from our cash and cash-equivalents and our portfolio of financial assets. As of March 31, 2017, the amount of our cash and cash-equivalents was Won 902 billion. Our portfolio of financial assets may also provide us with a source of liquidity to meet unexpected cash outflows. As of March 31, 2017, we held Won 20,988 billion of available-for-sale financial assets and Won 235 billion of financial assets at fair value through profit or loss. In addition, excluding our accreting deposits, substantially all of our remaining deposits with banks allow us to withdraw funds on deposit, subject in some cases to a penalty charge. As of March 31, 2017, we held Won 749 billion of deposits.

We currently anticipate that the cash flow that we generate from our operations, together with our existing cash and bank deposits, will be sufficient to meet our currently anticipated needs for working capital, capital expenditures and business expansion for the next 12 months. However, we may need to raise additional capital sooner than we expect in order to fund more rapid expansion or to respond to competitive pressures.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(In billions of Won)				
Cash flows from operating activities	₩ 3,747	₩ 2,915	₩ 2,690	₩ 608	₩ 993
Cash flows from investing activities	(4,249)	(2,311)	(2,339)	(514)	(617)
Cash flows from financing activities	(74)	(281)	(743)	(158)	(139)
Effect of exchange rate fluctuations on cash and cash equivalents held	(6)	(0)	0	(188)	(2)
Net increase (decrease) in cash and cash equivalents	(582)	323	(392)	(252)	236
Cash and cash equivalents at beginning of the period	1,317	736	1,058	1,058	666
Cash and cash equivalents at end of the period	736	1,058	666	807	902

Cash Flows from Operating Activities.

Our net cash provided by operating activities increased from Won 608 billion in the first quarter of 2016 to Won 993 billion in the first quarter of 2017, primarily reflecting net cash inflows from foreign exchange risk hedging activities as well as disposal of trading assets. Offsetting such net cash inflows, our premium income (net of insurance claims paid) collected from policyholders decreased from Won 747 billion in the first quarter of 2016 to Won 551 billion in the first quarter of 2017, as discussed above under "– Results of Operations – First Quarter of 2017 compared to First Quarter of 2016."

Our net cash provided by operating activities decreased from Won 2,915 billion in 2015 to Won 2,690 billion in 2016, primarily reflecting a decrease in interest received from Won 3,277 billion in 2015 to Won 2,528 billion in 2016 as well as a decrease in premium income (net of insurance claims paid) collected from policyholders from Won 2,841 billion in 2015 to Won 2,679 billion in 2016, as discussed above under "– Results of Operations – 2016 compared to 2015."

Our net cash provided by operating activities decreased from Won 3,747 billion in 2014 to Won 2,915 billion in 2015, primarily reflecting a decrease in premium income (net of insurance claims and benefits paid) collected from policyholders from Won 3,402 billion in 2014 to Won 2,841 billion in 2015, as discussed above under "– Results of Operations – 2015 compared to 2014."

Cash Flows from Investing Activities.

Our net cash used in investing activities increased from Won 514 billion in the first quarter of 2016 to Won 617 billion in the first quarter of 2017. The increase was attributable primarily to net cash used in our acquisition of available-for-sale financial assets in the first quarter of 2017 primarily to support the insurance policies sold by us compared to net cash inflow from disposal of available-for-sale financial assets in the first quarter of 2016, which was offset in part by a decrease in net cash used in acquisition of held-to-maturity financial assets. We recorded net cash inflow from disposal of available-for-sale financial assets of Won 238 billion in the first quarter of 2016 compared to net cash used in acquisition of available-for-sale financial assets of Won 101 billion in the first quarter of 2017. Net cash used in our acquisition of held-to-maturity financial assets decreased from Won 758 billion in the first quarter of 2016 to Won 506 billion in the first quarter of 2017.

Our net cash used in investing activities increased from Won 2,311 billion in 2015 to Won 2,339 billion in 2016. The increase was attributable primarily to an increase in net cash used in our acquisition of held-to-maturity financial assets primarily to support the insurance policies sold by us, which was offset in part by net cash inflow from disposal of available-for-sale financial assets in 2016 compared to net cash used in acquisition of available-for-sale financial assets in 2015. Net cash used in our acquisition of held-to-maturity financial assets increased from Won 1,865 billion in 2015 to Won 3,166 billion in 2016. We used net cash of Won 441 billion for acquisition of available-for-sale financial assets in 2015 compared to net cash inflow of Won 757 billion from our disposal of available-for-sale financial assets in 2016.

Our net cash used in investing activities decreased from Won 4,249 billion in 2014 to Won 2,311 billion in 2015. The decrease was attributable primarily to a decrease in net cash used in our acquisition of held-to-maturity financial assets and available-for-sale financial assets primarily to support the insurance policies sold by us. Net cash used in our acquisition of held-to-maturity financial assets decreased from Won 3,504 billion in 2014 to Won 1,865 billion in 2015 and net cash used in our acquisition of available-for-sale financial assets decreased from Won 693 billion in 2014 to Won 441 billion in 2015.

Cash Flows from Financing Activities.

Our net cash used in financing activities decreased from Won 158 billion in the first quarter of 2016 to Won 139 billion in the first quarter of 2017, primarily due to a decrease in dividend payments from Won 103 billion in the first quarter of 2016 (in respect of 2015) to Won 77 billion in the first quarter of 2017 (in respect of 2016).

Our net cash used in financing activities increased from Won 281 billion in 2015 to Won 743 billion in 2016, primarily due to increases in net repayment of borrowings and dividend payments. Our net repayment of borrowings increased from Won 212 billion in 2015 to Won 650 billion in 2016, while our dividend payments increased from Won 77 billion in 2015 (in respect of 2014) to Won 103 billion in 2016 (in respect of 2015).

Our net cash used in financing activities increased from Won 74 billion in 2014 to Won 281 billion in 2015, primarily due to increases in net repayment of borrowings and dividend payments. Our net repayment of borrowings increased from Won 7 billion in 2014 to Won 212 billion in 2015, while our dividend payments increased from Won 57 billion in 2014 (in respect of 2013) to Won 77 billion in 2015 (in respect of 2014).

Risk-Based Capital Adequacy Requirements

Pursuant to the risk-based capital adequacy requirements implemented by the FSS, insurance companies are required to maintain a statutory ratio of available regulatory capital to risk-weighted assets of not less than 100%. Furthermore, the FSS had previously recommended that insurance companies maintain a risk-based capital adequacy ratio of not less than 150%, and its former administrative guidelines had required insurance companies failing to maintain such recommended 150% ratio to submit a capital increase plan. Although the FSS has since withdrawn such administrative guidelines, we believe that a risk-based capital adequacy ratio of not less than 150% is still considered standard in the Korean insurance industry. Risk-based capital adequacy requirements require insurance companies to hold adequate capital to cover their exposures to interest rate risk, market risk, credit risk and operational risk as well as insurance risk by reflecting such risks in their calculation of risk-weighted assets. See “Regulation and Supervision — Risk-Based Supervision of Insurance Companies — Risk-Based Capital Adequacy Requirements.” Our risk-based capital adequacy ratio as of March 31, 2017 was 234.5%, compared to 233.9% as of December 31, 2016, 259.8% as of December 31, 2015 and 271.3% as of December 31, 2014.

The following table sets forth our available capital and required capital for purposes of calculating our statutory risk-based capital adequacy ratio as of March 31, 2017, as well as a breakdown of our required capital as of such date for each of the six principal areas of risk.

	As of March 31, 2017
	(in billions of Won, except percentages)
Available capital	₩7,879
Required capital	3,360
Risk-based capital adequacy ratio	234.5%
Required capital	₩3,360
Interest rate risk	1,848
Insurance risk	556
Credit risk	1,385
Market risk	253
Operational risk	107
Non-insurance company financial risk	83

Contractual Commitments and Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into commercial commitments for various aspects of our operations. The following table sets forth the contractual maturities of our insurance contracts and financial liabilities as of December 31, 2016.

	As of December 31, 2016					
	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	(In billions of Won)					
Liabilities under Insurance contracts	₩ 220	₩ 256	₩ 556	₩ 3,648	₩ 57,112	₩ 61,791
Financial liabilities designated at fair value through profit or loss	289	107	152	456	499	1,504
Trading liabilities	59	–	–	29	339	428
Derivative liabilities	140	133	273	409	178	1,132
Borrowings	1,262	2	114	90	–	1,468
Other financial liabilities	768	13	40	186	2	1,010
Total	₩ 2,739	₩ 511	₩ 1,136	₩ 4,818	₩ 58,130	₩ 67,333

In addition, as of March 31, 2017, we had Won 497 billion of off-balance sheet commitments to purchase asset-backed commercial paper, Won 498 billion of off-balance sheet guarantee commitments with respect to third party debts and Won 3,966 billion of off-balance sheet loan and investment commitments. See Notes 50.4, 50.5 and 50.6 of the notes to our unaudited condensed consolidated interim financial statements. As of March 31, 2017, we had no material off-balance sheet arrangements other than as described above and those relating to our separate accounts.

KOREAN LIFE INSURANCE INDUSTRY

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

Overview

The Korean life insurance market, which has grown steadily over the past decade, recorded total annual premium income of Won 120 trillion in 2016 according to the Korea Life Insurance Association. From 2006 to 2016, the aggregate total gross life insurance premiums in Korea (which includes premium income from both general and separate accounts) grew at a compounded annual growth rate ("CAGR") of 6.1% according to the Korea Life Insurance Association, while Korea's overall nominal gross domestic product ("GDP") grew at a CAGR of 4.1% during the same period according to International Financial Statistics.

Despite significant growth of Korea's life insurance industry over the years, its penetration and density levels still remain lower than those of other developed markets in Asia such as Japan or Taiwan, among others. Insurance penetration, defined as a country's total premium income as a percentage of its GDP, and insurance density, defined as premium income per capita, are two common metrics for gauging the stage of development of a country's insurance industry. Korea's life insurance penetration rate of 7.3% in 2015 was lower than the penetration rates for Taiwan and Japan of 15.7% and 8.3%, respectively, according to Swiss Re Sigma. Korea's life insurance density level of US$1,940 in 2015 was also lower than Taiwan's and Japan's density levels of US$3,397 and US$2,717, respectively, according to Swiss Re Sigma.

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

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

Industry Trends

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

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

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

In addition, Korea had one of the most rapidly increasing health expenditures among the OECD member countries in the past decade, which has been one of the key drivers of the growth in sales of protection-type products in the Korean life insurance industry. According to the OECD, health expenditure per capita in Korea increased at a CAGR of 8.7% between 2005 to 2015, which significantly benefited the private insurance sector. However, despite the continued growth of health expenditure in Korea, its portion of GDP, which increased from 5.0% in 2005 to 7.2% in 2015, still remained at one of the lowest levels among OECD member countries, which averaged 9.0% in 2015.

Furthermore, the ratio of public health expenditure to total health expenditure in Korea, which was 55.6% in 2015, remained significantly lower than those of OECD member countries generally, which averaged 72.9%, according to the OECD. The level of protective coverage provided by the public health insurance system in Korea is more limited with respect to critical illness care compared to other advanced OECD member countries. As a result, there is a growing need for a private health insurance system to compensate for the shortfall in coverage provided by the public health insurance system, which is expected to provide Korean life insurance companies with an opportunity for future business growth in protection-type insurance products.

BUSINESS

We are one of the leading life insurance companies in Korea, offering a broad range of life insurance and investment products to retail customers as well as group life insurance products and retirement pension plans to institutional customers through our established distribution and marketing channels. As of and for the year ended December 31, 2016, we were ranked as the third largest Korean life insurance company in terms of asset size and gross premiums (including separate account premiums) on a standalone basis, according to the Korea Life Insurance Association. As of March 31, 2017, we had approximately 9.3 million life insurance policies in force and approximately 4.4 million individual policyholders.

We seek to pursue a profit and quality-oriented growth strategy with an emphasis on selling higher-margin life insurance products and improving cost efficiencies. We are strategically focused on product innovation with the objective of increasing the insurance coverage provided to our customers and attracting new business by introducing creative new products and additional services encompassing life insurance, fund and trust products that cater to the evolving investment and protection needs of the rapidly aging Korean population, as well as changes in the regulatory environment. Based on these principles, we have consistently maintained a leading position in the Korean life insurance market in terms of profitability, business profile and financial strength. Among the three largest life insurance companies in Korea in terms of asset size that have historically led the Korean life insurance market, consisting of Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and us, we have recorded the highest profitability as measured by return on equity and return on assets in 2014, 2015 and 2016. We are also the first and only life insurance company in Korea to receive company credit ratings from Moody’s and Fitch, with an A1 rating from Moody’s in 2015 and 2016 and an A+ rating from Fitch from 2013 to 2016.

We develop and distribute a comprehensive range of individual and group life insurance products that provide protection against a policyholder’s death, disability, illness, accident or other events, as well as annuities and savings insurance products. We also offer variable insurance products and retirement pension plans to address our customers’ growing preference for greater investment flexibility. Utilizing our ability to develop innovative products in response to changing customer preferences and the substantial resources we have devoted to analyzing changes in demographic, mortality and investment trends, we offer insurance products and services that cater to individuals’ specific needs at various stages of their lives. For example, by introducing the “Dream-matching Kyobo Annuity Insurance II (non-participating)” product in 2016, we became the first Korean life insurance company to offer to the private sector an annuity product that enables the annuity payment to pass on to the bereaved family for up to 20 years after the death of the insured person. In addition, our “Kyobo Premier CI Insurance (non-participating)” product, which was also introduced in 2016, expands the customary coverage of protection against critical illnesses to other illnesses that are highly correlated to such critical illnesses and provides customized health care services to manage such correlated illnesses to mitigate the risk of their deterioration into more serious illnesses. As of March 31, 2017, 14 of our insurance products had received “exclusive use rights” under Korean financial regulations since 2002, including the “Dream-matching Kyobo Annuity Insurance II (non-participating)” and “Kyobo Premier CI Insurance (non-participating)” products in 2016, which legally prohibit other life insurance companies from introducing similar products in Korea for a period up to six months, representing the most number of such rights obtained by a Korean life insurance company during such period.

Leveraging on the “Kyobo” brand, which we believe is one of the best-recognized brands in the Korean financial services sector, we have achieved our position as a market leader through our multi-channel distribution and marketing platform led by our extensive financial planner channel. We operate a nationwide distribution channel of approximately 17,678 financial planners as of March 31, 2017, who are our exclusive sales agents. Our financial planner complemented by our 59 “Customer Plazas,” which offer comprehensive products and services to our customers and provide training and advisory support to our financial planners, as well as seven "Nobiliare Centers" that target high net worth individuals and other preferred customers. Our distribution and marketing platform also includes bancassurance arrangements with all of the leading commercial banks and many of the securities firms and mutual savings banks in Korea, as well as sales arrangements with individual and general agencies, some of which sell our products on an exclusive basis, in addition to a direct marketing channel. We believe that the strength of our financial planner channel, which primarily focuses on selling higher-margin protection-type life insurance products, and the complementary activities of our other sales channels that mainly sell annuity and savings insurance products enable us to optimize our distribution and marketing efforts based on customer segmentation and targeted product offerings.

We were incorporated in August 1958 as Daehan Kyoyuk Insurance Co., Ltd. and changed our corporate name to Kyobo Life Insurance Co., Ltd. in April 1995. In addition to our core life insurance operation, we engage in the securities business through Kyobo Securities Co., Ltd., in which we hold a 51.6% interest, and operate Korea's largest chain of bookstores through Kyobo Book Center Co., Ltd., our wholly-owned subsidiary. We established Kyobo Book Center in December 1980, which opened its first store in June 1981. In April 1994, we acquired a controlling interest in Daehan Securities Co., Ltd., Korea's oldest securities company founded in 1949, and changed its corporate name to Kyobo Securities.

We have a stable and diversified ownership structure that consists of a group of global institutional investors in addition to our senior management. Mr. Chang-Jae Shin, who has been our chief executive officer and representative director since 2000, holds 33.8% of our outstanding common shares. The remainder of our outstanding common shares are primarily owned by investment vehicles or affiliates of various global private equity funds and long-term institutional investors, as well as domestic and foreign financial institutions including globally leading life insurance companies and banks.

Our operating revenues were Won 13,706 billion in 2014, Won 14,255 billion in 2015 and Won 14,442 billion in 2016, and Won 3,947 billion in the first quarter of 2016 and Won 4,670 billion in the first quarter of 2017. We reported net income of Won 517 billion in 2014, Won 644 billion in 2015 and Won 543 billion in 2016, and Won 219 billion in the first quarter of 2016 and Won 190 billion in the first quarter of 2017. We had total assets of Won 97,614 billion and total equity of 7,976 billion as of March 31, 2017.

Our headquarters are located at 1, Jong-ro, Jongro-gu, Seoul 03154, Korea, and our website is http://www.kyobo.co.kr.

Our Strengths

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

Stable operating performance in a well-established life insurance market

- According to Swiss Re Sigma, Korea is the third largest life insurance market in Asia by total premium income after Japan and China and the seventh largest market in the world. From 2006 to 2016, premium income in Korea recorded a CAGR of 6.1%;
- The Korean life insurance market has relatively lower penetration and density levels compared to other developed markets in Asia, indicating that it has potential for continued growth; and
- Despite challenging global macroeconomic conditions and a low interest rate environment, we recorded annual net income of greater than Won 510 billion in 2014, 2015 and 2016, and our shareholders' equity has grown during the past decade primarily due to our generation of net income during such period.

Solid market position with superior profitability

- We have maintained our market position as one of the three largest life insurance companies in Korea by total gross premiums, which collectively accounted for 46.2% of total gross premiums in Korea in 2016. We recorded a market share of 10.2% in terms of total gross premiums in 2016; and

- Among the three largest Korean life insurance companies, we have recorded the highest return on equity and return on assets in 2014, 2015 and 2016 by (i) focusing on high margin products such as protection-type products and (ii) prudently managing our asset portfolio. Our superior profitability is further demonstrated by our higher market share by net income compared to our market share by total gross premiums: in 2016, our market share by net income in the Korean life insurance market was 19.6%, compared to our market share by total gross premiums of 10.2%.

Strong product development capability focusing on high-margin products

- We have introduced tailored products to better serve customers' needs and enhance our profitability;

  - ➢ As of March 31, 2017, we possessed the highest number of products that received "exclusive use rights" in the Korean life insurance industry since the granting of such rights began in 2002; and

  - ➢ In 2013, we launched Kyobo Life Planet Life Insurance Co., Ltd., the first online-focused life insurance company in Korea, to offer products tailored for the online distribution channel;

- We are well prepared for an aging Korean population as well as a relatively lower proportion of financial assets held by Korean households compared to other countries, which we believe will lead to an increase in demand for protection-type and annuity products;

  - ➢ In recent years, we strengthened our marketing focus to protection-type products for specific demographic segments, and the portion of first year premiums from such products increased to 48.3% of total general account premiums in 2016, compared to 26.5% in 2014; and

  - ➢ As of March 31, 2017, we offered 25 protection-type products for individuals and nine protection-type group insurance products, which is a testament to our comprehensive range of product offerings with a focus on profitability.

Comprehensive network of distribution and marketing channels with one of the industry's leading financial planner sales forces to support sustainable growth

- We maintain an extensive network of distribution and marketing channels consisting of financial planners, bancassurance, agencies and direct marketing channels;

- We operate the third largest financial planner channel in Korea based on first year general account premiums in the first quarter of 2017. We have a loyal and well-trained financial planner sales force of over 17,500 agents, with an average tenure of seven years;

  - ➢ Our financial planner channel, accounting for 52.6% of our total first year premiums (including first year premiums for our separate accounts) in 2016, is our main channel for marketing protection-type products;

- We have partnerships with all of the leading commercial banks in Korea, and 25.5% of our total first year premiums (including first year premiums for our separate accounts) in 2016 were derived from the bancassurance channel, which primarily distributes savings and annuity products.

Conservative solvency level and prudent risk management

- We adopted proactive asset-liability management directives to mitigate interest rate risk amidst the volatile financial market environment, including by lowering our liability costs by focusing on floating rate products;
  - ➢ In recent years, we have continuously reduced the proportion of our premium reserves accounted for by high guaranteed rate of return products. Our premium reserves for in-force policies with guaranteed rate of return equal to or in excess of 6.0% per annum decreased from 36.6% of our total general account premium reserves as of December 31, 2014 to 31.9% as of March 31, 2017; and
  - ➢ In comparison, our average premium reserves as a percentage of our total in-force policies has continued to decline from 5.26% per annum as of December 31, 2014 to 4.70% as of March 31, 2017;
- We have maintained a strategy to narrow the duration gap between our assets and liabilities. On the asset side, we strive to focus our loan portfolio on loans with high quality collateral and customers as well as increase the proportion of long-term fixed-rate mortgage loans;
  - ➢ As a result, the duration of our interest-bearing assets has continuously increased in recent years, and exceeded our liabilities duration on a statutory basis as of December 31, 2016;
- We have managed our risk-based capital adequacy ratio at a conservative level in recent years, in preparation for additional revisions to the solvency regime in Korea. Our risk-based capital adequacy ratio was 234.5% as of March 31, 2017, well above the FSS's recommended level of 150%; and
- We have been maintaining the highest proportion of retained earnings in shareholders' equity among major life insurance companies in Korea, through the generation of net income each year.

Experienced management team and diversified ownership structure

- Our senior management consists of highly qualified professionals with in-depth industry knowledge, extensive management experience and expertise in the Korean life insurance industry;
- We have a diversified ownership structure, which has helped us maintain a leading position in the industry and adapt to a rapidly changing market environment;
  - ➢ Mr. Chang-Jae Shin, our representative director and chief executive officer, is our largest shareholder with a 33.8% ownership interest in our common shares; and
  - ➢ Globally reputable investors, including Corsair Capital, Affinity Capital Partners, Ontario Teachers' Pension Plan, The Export-Import Bank of Korea, Standard Chartered Private Equity and Baring Private Equity, own most of the remaining ownership interest in our common shares directly or through their investment vehicles or affiliates; and
- At the "2016 Korea Fund – Asset Management Award" event, we received the "Governor of Financial Supervisory Service Award," which is the grand prize award in the life insurance category, in recognition of our profitability and management transparency.

Our Strategy

Our core business principles are to pursue a profit and quality-oriented growth strategy while maintaining a strong capital position. To attain our objectives, we plan to pursue the following strategies:

Improve the competitive value of our products and services

- In January 2016, we embarked on a new goal called "Vision2020" to become Korea's most innovative life insurance company in terms of products and distribution, by providing products and services targeting various segments of our potential customer base that exceed their expectations; and
- We plan to expand our insurance coverage by offering additional differentiated products and services that meet our customers' needs in a timely manner and thereby enhance our new business value. Specifically, we plan to introduce whole life and critical illness products with a wider range of options and higher competitive coverage, strategic protection-type products that address coverage needs related to health, medical, and long-term care, as well as variable insurance products with a simplified structure that could be more attractive to our customers. In addition, we plan to expand the scope of our health care-related products from illness management to health promotion and illness prevention.

Expand our financial planner distribution and marketing channel and strengthen the capabilities of our financial planners

- We plan to steadily expand our financial planner sales force, which is our most reliable distribution channel;
    - ➢ We seek to analyse the sales patterns and existing customer base of our financial planners in order to provide customized training and support; and
    - ➢ We seek to train new financial planners to achieve sustainable insurance sales based on high standards of professionalism, as well as pursue opportunities to secure suitable candidates to increase the number of highly skilled and educated financial planners; and
- We plan to strengthen our financial planners' capabilities to better address the needs of our customers;
    - ➢ We seek to enhance the training of our financial planners in order to equip them with best-in-class consulting capabilities to assess the financial needs of our customers at different stages of their lives and provide them with optimal solutions that address their individual needs.

Proactively respond to evolving regulations and maximize customer satisfaction

- We plan to improve our company-wide risk management system and infrastructure, while executing measures to mitigate the adverse effects expected from the implementation of IFRS 17 starting in January 2021 and the new regulatory solvency regime in Korea;
- In our marketing activities, we seek to adhere to strict underwriting processes to minimize customer complaints as well as strive to enhance the management, servicing and retention of our existing policyholders; and
- We intend to actively solicit, and pay close attention to, customer complaints and proactively integrate customer feedback to improve our operations.

Achieve long-term profitability by improving our asset management

- We are dedicated to managing our investment assets in the best interests of our customers and with a focus on long-term stability;

- We strive to improve our investment yields by seeking out alternative investment opportunities that provide relatively higher returns within acceptable risk limits; and

- We plan to continue to proactively manage our exposure to market risks, by focusing on our asset-liability management in preparation for the implementation of the new regulatory solvency regime in Korea.

Our Products and Services

We offer a variety of life insurance products, including protection-type products that provide a wide range of protection against a policyholder's death, critical illness or other events, as well as annuities and savings insurance, primarily to retail customers. We also offer retirement pension products and group life insurance products to corporations and institutions. In each of the individual and group life insurance categories, we also offer variable insurance products. In addition, we engage in the sale of third-party fund and trust products.

We manage our risk exposure and profitability by periodically adjusting our policy features and prices to reflect updated actuarial data and seeking to optimize our product mix. From time to time, we supplement our existing products by introducing additional riders and enhanced product features.

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

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
General account (1)										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 3,061	24.9%	₩ 3,393	26.9%	₩ 3,658	29.9%	₩ 952	31.6%	₩ 889	30.0%
Other protection– type products (2)	969	7.9	902	7.2	844	6.9	211	7.0	213	7.2
Annuities (3)	2,983	24.3	2,414	19.1	2,251	18.4	586	19.4	586	19.8
Savings insurance	950	7.7	1,004	8.0	1,006	8.2	264	8.8	228	7.7
Group insurance:										
Pure protection	99	0.8	101	0.8	103	0.8	26	0.9	27	0.9
Savings insurance	12	0.1	12	0.1	12	0.1	3	0.1	3	0.1
Subtotal	8,076	65.7	7,825	62.1	7,874	64.3	2,043	67.8	1,945	65.7
Separate accounts (4)										
Individual insurance:										
Variable protection– type products (5)	1,063	8.6	1,100	8.7	1,085	8.9	273	9.1	271	9.2
Variable annuities	1,616	13.1	1,643	13.0	1,616	13.2	404	13.4	419	14.1
Variable savings insurance (6)	251	2.0	212	1.7	168	1.4	47	1.6	36	1.2
Retirement pensions	1,294	10.5	1,829	14.5	1,499	12.2	245	8.1	291	9.8
Subtotal	4,224	34.3	4,784	37.9	4,368	35.7	969	32.2	1,017	34.3
Total	₩12,299	100.0%	₩12,609	100.0%	₩12,242	100.0%	₩3,012	100.0%	₩2,962	100.0%

(1) Includes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs, which is recognized as premium income in our statements of comprehensive income.

(2) Includes term life insurance, health insurance and children's insurance products.

(3) Includes education insurance products.

(4) Reflects the portion of premiums received on variable insurance policies that relates to benefits based on the performance of the underlying investment assets, which is not included in our statements of comprehensive income.

(5) Includes variable whole life insurance and variable universal whole life insurance.

(6) Includes variable life insurance and variable universal life insurance.

The following table sets forth information about our first year premiums by product type (including first year premiums for our separate accounts), on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In billions of Won, except percentages)									
General account (1)										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 509	15.6%	₩ 694	21.5%	₩ 773	28.9%	₩250	33.1%	₩137	20.8%
Other protection-type products (2)	105	3.2	112	3.5	120	4.5	24	3.1	42	6.5
Annuities (3)	1,185	36.4	644	19.9	513	19.2	251	19.6	163	24.8
Savings insurance	477	14.7	422	13.1	493	18.5	22	17.8	82	12.5
Group insurance:										
Pure protection	33	1.0	34	1.0	36	1.3	9	1.2	10	1.5
Savings insurance	2	0.1	2	0.1	1	0.0	0	0.0	0	0.0
Subtotal	2,310	71.0	1,908	59.1	1,936	72.5	565	74.9	434	66.0
Separate accounts (4)										
Individual insurance:										
Variable protection-type products (5)	171	5.2	127	3.9	67	2.5	21	2.8	16	2.5
Variable annuities	266	8.2	306	9.5	275	10.3	64	8.5	96	14.6
Variable savings insurance (6)	11	0.3	2	0.1	2	0.1	0	0.1	0	0.1
Retirement pensions	499	15.3	887	27.5	392	14.7	104	13.8	110	16.8
Subtotal	946	29.0	1,322	40.9	735	27.5	189	25.1	223	34.0
Total	₩3,256	100.0%	₩3,230	100.0%	₩2,671	100.0%	₩754	100.0%	₩658	100.0%

(1) Includes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs, which is recognized as premium income in our statements of comprehensive income.

(2) Includes term life insurance, health insurance and children's insurance products.

(3) Includes education insurance products.

(4) Reflects the portion of premiums received on variable insurance policies that relates to benefits based on the performance of the underlying investment assets, which is not included in our statements of comprehensive income.

(5) Includes variable whole life insurance and variable universal whole life insurance.

(6) Includes variable life insurance and variable universal life insurance.

(7) For the first quarters of 2016 and 2017, first year premiums comprise the amount of premiums recognized in the specified interim period in respect of policies sold during that period.

The following table sets forth information about our APE by product type (including APE for our separate accounts), on a standalone basis, for the periods indicated. APE for the periods indicated represents our annualized premiums for regular payment premium products sold during the applicable period plus 10% of our premiums for single payment premium products sold during such period.

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016[8]		2017[8]	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(In billions of Won, except percentages)									
General account [1]										
Individual insurance:										
Protection-type products:										
Whole life insurance	₩ 533	28.9%	₩ 617	36.0%	₩ 614	38.2%	₩191	42.5%	₩ 90	19.7%
Other protection-type products [2]	98	5.3	100	5.8	144	9.0	22	4.9	59	13.1
Annuities [3]	489	26.5	346	20.2	280	17.4	82	18.2	112	24.6
Savings insurance	276	15.0	263	15.4	287	17.9	91	20.2	65	14.3
Group insurance:										
Pure protection	35	1.9	36	2.1	38	2.4	10	2.3	10	2.2
Savings insurance	1	0.1	1	0.1	1	0.0	0	0.0	0	0.0
Subtotal	1,432	77.8	1,362	79.5	1,364	84.8	396	88.2	336	73.9
Separate accounts [4] [5]										
Individual insurance:										
Variable protection-type products [6]	150	8.1	94	5.5	54	3.4	12	2.6	19	4.2
Variable annuities	256	13.8	256	14.9	189	11.7	41	9.1	99	21.8
Variable savings insurance [7]	3	0.2	2	0.1	1	0.1	0	0.1	1	0.2
Subtotal	410	22.1	351	20.5	244	15.2	53	11.8	119	26.1
Total	₩1,857	100.0%	₩1,713	100.0%	₩1,609	100.0%	₩449	100.0%	₩454	100.0%

(1) Includes the portion of premiums received on variable insurance policies that relates to acquisition and operating costs, which is recognized as premium income in our statements of comprehensive income.

(2) Includes term life insurance, health insurance and children's insurance products.

(3) Includes education insurance products.

(4) Reflects the portion of premiums received on variable insurance policies that relates to benefits based on the performance of the underlying investment assets, which is not included in our statements of comprehensive income.

(5) Excludes retirement pensions.

(6) Includes variable whole life insurance and variable universal whole life insurance.

(7) Includes variable life insurance and variable universal life insurance.

(8) For the first quarters of 2016 and 2017, APE is calculated based on the amount of premiums recognized in the specified interim period in respect of policies sold during that period.

The following table sets forth a breakdown of our first year premiums by single or regular payment type products (including first year premiums for our separate accounts), on a standalone basis, for the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(in billions of Won)				
First year regular premiums	₩ 2,101	₩ 2,646	₩ 2,110	₩ 551	₩ 489
First year single payment premiums	1,155	584	562	204	169
Total first year premiums	₩ 3,256	₩ 3,230	₩ 2,671	₩ 751	₩ 658

Individual Life Insurance

We provide a wide range of life insurance products for individuals that provide protection against a policyholder's death, disability, illness, accident or other events, as well as annuities, savings and variable insurance products. We believe that our substantial experience and expertise in product development, supplemented by analysis of consumer market trends and our customer database by our customer relationship management department as well as industry analysis and product research studies conducted by us, enable us to develop products that meet changing market demand.

We seek to optimize our product offering mix by increasing the sales proportion of protection-type life insurance products, which offer a stable source of revenues and enhance our risk-based capital adequacy ratio as they require lower premium reserves than savings or annuity products and are less exposed to interest rate risk. We also manage our risk exposure and profitability by periodically adjusting our policy features and premiums to reflect updated actuarial data and seeking to optimize the proportion of interest rate-sensitive insurance products in our product offering mix. On many of our products, we provide our policyholders various options to tailor their policies to their needs by integrating specific features into their policies. From time to time, we also supplement our existing products by introducing additional riders and enhanced product features. In addition, we offer family policies insuring two or more family members under one policy, as well as policies developed particularly to address the insurance needs of specific demographic segments, including age-specific products aimed at children and senior citizens and products specifically addressing schoolchildren's education funding needs from grade school to collegiate levels.

Protection-type Products

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

We offer a wide range of whole life insurance products. We offer interest rate-sensitive whole life insurance policies that provide a death benefit determined in accordance with a floating interest crediting rate. In addition, we offer universal whole life insurance policies that provide flexible premium payment options and an adjustable benefit. Premium payments above the cost of insurance are credited to the cash value of the policy and the cash value is credited with interest each month based on the terms of the policy. We also provide whole life insurance products that cater to customers concerned with the treatment of critical illnesses or the need for long-term care by paying a portion of the guaranteed benefit upon the occurrence of certain specified critical illnesses or other specified events requiring long-term care affecting the insured person and paying the remainder of the guaranteed benefit upon the death of the insured person to a beneficiary designated by the policyholder. Some of our whole life insurance products also permit the policyholder to convert the policy into an annuity, in response to the increasing needs of customers to prepare financially for their retirement years. If the insured person dies without any such critical illnesses or events requiring long-term care, the entire guaranteed benefit is paid to the beneficiary upon the death of such person. In 2016, we introduced our "Kyobo Premier CI Insurance (non-participating)" product, which expands the customary coverage of protection against critical illnesses to other illnesses that are highly correlated to such critical illnesses and provides customized health care services to manage such correlated illnesses in order to mitigate the risk of their deterioration into more serious illnesses. The innovative nature of such product was recognized by the grant of an "exclusive use right" under Korean financial regulations.

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

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

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

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

Annuities

We offer annuities that are used by our customers to accumulate assets over an accumulation period and then to receive annuity payments in later years. Holders of our annuities pay premiums either in a single payment or on a periodic basis over a predetermined period and receive periodic annuity payments during the payoff period specified in the contract. Typically, the policyholder receives periodic annuity payments if the insured person survives during the payoff period, and the beneficiary designated by the policyholder receives a death benefit if the insured person dies prior to the start of the payoff period. Annuities have become increasingly popular in Korea as both life expectancy and interest in preparing for life after retirement have grown.

Our annuity products include annuities developed specifically for high net worth individuals, as well as immediate annuities designed for retiring customers in the "baby boomer" generation and other differentiated products catering to the evolving needs of our customers. For example, we introduced our "Dream-matching Kyobo Annuity Insurance II (non-participating)" product in 2016, which was the first annuity product in the private insurance sector in Korea that enables the annuity payments to pass on to the bereaved family for up to 20 years after the death of the insured person, and received an "exclusive use right" for such product under Korean financial regulations. Most of the annuities we currently offer are interest rate-sensitive products that provide benefits determined in accordance with a floating interest crediting rate, some of which also provide a guaranteed rate of minimum annuity payments set currently between 0.75% and 1.25% per annum, depending on the coverage period.

We also offer annuities with variable insurance features. See "— Variable Insurance Products."

Savings Insurance

We offer savings insurance products that provide the policyholder with a guaranteed maturity benefit if the insured person survives a specified maturity date or period stated in the policy, and provide to a beneficiary designated by the policyholder a guaranteed death benefit upon the death of the insured person within the coverage period, in return for periodic payment of premiums. Specified coverage periods range from seven to 20 years or end at specified ages. Premiums are typically set as a fixed sum and are usually required to be paid in a single payment or over a predetermined payment period. All of the savings insurance policies we currently offer are interest rate-sensitive products that provide benefits determined in accordance with a floating interest crediting rate, with a guaranteed minimum crediting rate set currently between 0.75% and 1.25% per annum, depending on the coverage period.

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

Variable Insurance Products

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

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

Variable insurance products can also be utilized as tax-exempt vehicles for overseas investment, which we believe is an attractive feature for Korean customers. We believe our variable insurance policies are particularly popular as retirement planning instruments due to the breadth of portfolio investment options we make available with respect to such policies and the tax benefits associated with such options.

We are required under the Regulation on Supervision of Insurance Business to maintain separate accounts related to variable insurance policies. These separate accounts are segregated from each other and from our general account. We engage several investment management companies to manage the investment portfolios of our separate accounts. Such investment management companies have the discretion to make their own independent investment decisions. We select such investment management companies competitively on the basis of past investment returns, management costs and other qualitative assessments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Major Factors Affecting Our Results of Operations and Financial Condition — Mix of Products."

Retirement Pension Products

We offer retirement pension plans to Korean companies and institutions pursuant to the Korean Employee Retirement Benefit Security Act, as well as plan administrator services and asset management services. According to FSS data, we were the second largest provider of retirement pension products among life insurance companies, and the tenth-largest provider of such products overall among financial institutions, in Korea in 2016. We offer the following two types of retirement pension plans, which are selected by the participating companies:

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

- **Defined contribution plan.** Under our "defined contribution" plan, an employer makes contributions into an employee's plan prior to retirement, and the employee receives either a lump-sum retirement benefit or, if an annuity option is selected, a fixed level of payments during the payoff period, based on the plan's investment returns linked to the underlying investment portfolio selected by the employee.

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

Group Life Insurance

We provide group life insurance products to our institutional customers, which include some of Korea's leading companies and institutions. Our products include primarily group life insurance plans, which contains elements of both protection-type products and annuity and savings products. From time to time, we bundle our group life insurance products with retirement pension plans in order to more effectively address the overall employee benefit plan needs of our institutional customers, and provide plan administration services as well as ongoing benefit education and advisory services.

Fund and Trust Products and Services

We distribute and sell fund and trust products developed and managed by third parties, as well as by our consolidated subsidiary, Kyobo Securities, to retail customers in Korea. We sell such products primarily through our Customer Plaza network. In addition, some of our financial planners are trained and licensed to advise on and recommend various fund and trust products to our customers, who are then referred to our Customer Plaza employees to finalize their purchase of such products. We aim to provide comprehensive life insurance and wealth management solutions that cover a wide array of investment objectives and dispositions and are designed to attract and retain assets of individuals with varying objectives and to accommodate our customers' changing financial needs.

We believe that our investment-oriented product line-up, focused on long-term returns for retirement income, and our ability to utilize the products and resources of Kyobo Securities, provide us with a competitive advantage over other life insurance companies in respect of sales of fund and trust products. We generate commissions from sales of fund products, which include money market funds, equity funds, fixed income funds and hybrid funds (the assets of which include both fixed income and equity securities) as well as from sales of trust products, which include money market trusts, bank deposit trusts and fixed income investment trusts.

Distribution and Marketing Channels

One of our core competitive strengths is our multi-channel distribution and marketing platform, with one of the largest sales forces and geographical reach among all life insurance companies in Korea. Our financial planner channel consists of approximately 17,678 financial planners (including approximately 243 sales agents of property and casualty insurance companies who have elected to exclusively sell our products from among those offered by life insurance companies and approximately 884 group financial planners who primarily market group insurance products to institutional customers, as well as 410 financial planners who support our direct marketing channel) as of March 31, 2017. Our financial planners provide financial consulting services and sell our products, and this channel has traditionally been our principal distribution channel. We believe that the financial planner channel's importance will continue as product features become more complex and the sales process involves additional steps required by regulation such as suitability tests that require close interaction and consultation between the customer and the financial planner.

In response to the diversification of customers' preferences and needs, we have also supplemented our financial planner channel for individual life insurance products with the following channels:

- ***Bancassurance Channel*** — We have bancassurance arrangements with all of the leading commercial banks and many of the securities firms and mutual savings banks in Korea, pursuant to which they market and distribute our life insurance products through their branches on a non-exclusive basis;

- ***Agency Channel* —** We have entered into marketing arrangements with approximately 21 individual agencies and seven general agencies that sell our products on an exclusive basis, as well as 189 general agencies that sell our products on a non-exclusive basis; and

- ***Direct Marketing Channel*** — Our direct marketing channel, which is supported by approximately 410 dedicated financial planners in addition to our employees, distributes our life insurance products through telemarketing and marketing on home shopping television networks, as well as through the Internet. We also hold a 92.5% equity interest in Kyobo Life Planet Life Insurance Co., Ltd., which develops and sells life insurance products exclusively through the online direct marketing channel.

In addition to our multi-channel distribution and marketing platform dedicated to individual life insurance products, we have a sales force of approximately 884 group financial planners who market group life insurance products to institutional customers as well as a dedicated corporate sales force of approximately 69 employees that specifically market retirement pension plans to institutional customers.

The following table sets forth the amounts of our first year premiums and percentages of our total first year premiums (including first year premiums for our separate accounts) attributable to each distribution channel, on a standalone basis, for the periods indicated.

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount[1]	%	Amount[1]	%
	(in billions of Won, except percentages)									
Financial planners[2]	₩ 1,470	45.2%	₩ 1,480	45.8%	₩ 1,340	50.2%	₩ 389	51.5%	₩ 331	50.4%
Bancassurance	963	29.6	579	17.9	682	25.5	191	25.3	162	24.6
Agencies	301	9.2	259	8.0	243	9.1	67	8.9	53	8.1
Corporate sales[3]	473	14.5	859	26.6	355	13.3	94	12.5	99	15.1
Direct marketing[4]	49	1.5	53	1.7	51	1.9	14	1.8	12	1.8
Total	₩ 3,256	100.0%	₩ 3,230	100.0%	₩ 2,671	100.0%	₩ 754	100.0%	₩ 658	100.0%

(1) For the first quarters of 2016 and 2017, first year premiums comprise the amount of premiums recognized in the specified interim period in respect of policies sold during that period.
(2) Excludes first year premiums attributable to group financial planners who primarily market group life insurance products to institutional customers and financial planners who support our direct marketing channel.
(3) Includes first year premiums attributable to group financial planners.
(4) Includes first year premiums attributable to financial planners who support our direct marketing channel.

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

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount[(1)]	%	Amount[(1)]	%
	(in billions of Won, except percentages)									
Financial planners[(2)]	₩ 1,157	62.8%	₩ 1,053	61.5%	₩ 943	58.6%	₩ 248	55.3%	₩ 244	53.7%
Bancassurance	375	20.4	333	19.4	391	24.3	121	27.0	137	30.2
Agencies	214	11.6	216	12.6	170	10.6	49	10.9	45	9.9
Corporate sales[(3)]	48	2.6	58	3.4	57	3.6	18	3.9	17	3.8
Direct marketing[(4)]	49	2.6	53	3.1	48	3.0	13	2.9	11	2.3
Total	₩ 1,842	100.0%	₩ 1,713	100.0%	₩ 1,609	100.0%	₩ 449	100.0%	₩ 454	100.0%

(1) For the first quarters of 2016 and 2017, APE is calculated based on the amount of premiums recognized in the specified interim period in respect of policies sold during that period.
(2) Excludes APE attributable to group financial planners who primarily market group life insurance products to institutional customers and financial planners who support our direct marketing channel.
(3) Includes APE attributable to group financial planners.
(4) Includes APE attributable to financial planners who support our direct marketing channel.

We have pursued a comprehensive distribution and marketing strategy to align our existing customer base and target customers with suitable distribution channels and products. Our strategy differentiates distribution and marketing techniques applicable to specific demographic characteristics for certain products, such as gender, age and income, and enhancing up-selling of other age-appropriate products to our existing customers as they grow older. We believe that this strategy will better enable us to leverage our policyholder base to sell new insurance products. We also believe that our multi-channel platform supplementing our core financial planner channel enables us to optimize our distribution and marketing efforts based on customer segmentation and targeted product offerings. In addition to our marketing efforts through our distribution channels, we engage in promotional and general corporate image advertising on television, printed and outdoor media, and the Internet, including social networking services.

Financial Planner Channel

Traditionally, life insurance sales in Korea have been driven by personal relationships of financial planners, and our financial planner channel continues to constitute the primary distribution channel for our products. We believe that our extensive network of financial planners located throughout Korea enables us to more effectively control distribution of our products and build and maintain long-term relationships with our individual customers. Our financial planners are trained to match customers of varying income levels and demographic segments with specific life insurance and investment products that fit their particular needs, and to customize these products with individualized features.

The following table sets forth certain information relating to our financial planner channel as of the dates or for the periods indicated.

	As of, or for the Year Ended, December 31,			As of, or for the Three Months Ended, March 31,	
	2014	2015	2016	2016	2017
Number of financial planners[(1)]	19,857	18,365	18,120	18,283	17,678
13th-month retention rate[(2)]	39.9%	39.8%	43.8%	44.1%	44.0%
Financial planner productivity (in thousands of Won)[(3)]	₩ 80,003	₩ 86,052	₩ 81,041	₩ 94,455	₩ 81,965

(1) Includes sales agents of property and casualty insurance companies who have elected to exclusively sell our products from among those offered by life insurance companies, group financial planners who primarily market group life insurance products to institutional customers and financial planners who support our direct marketing channel.
(2) The percentage of financial planners remaining with us after 12 months of engagement with us.
(3) The ratio of (i) the aggregate amount of first year premiums recognized, on an annualized basis, for policies sold through our financial planner channel (excluding group financial planners and financial planners who support our direct marketing channel) in a specified period to (ii) the monthly average number of our financial planners for such period.

Our financial planners, including group financial planners, enter into standardized agency agreements with us, which typically are for renewable one-year terms and may be terminated by the financial planner at any time and by us upon the occurrence of various events specified in the agreement, including the financial planner’s failure to meet our minimum performance standards. A significant portion of our financial planners’ compensation consists of commissions for the products they sell and bonuses for outstanding performance, in addition to certain training allowances and initial payments paid at the beginning of their agency relationship with us. While actual commission rates vary by product type, in the case of whole life insurance products with a 20-year premium payment period, approximately 6% of the net present value of the total premium amount, on average, is paid as compensation to our financial planners. Our financial planner compensation structure de-emphasizes upfront commissions in favor of deferred commission payments spread out over the effective period of the relevant insurance policies, which we believe incentivizes our financial planners to provide better customer service and enhances retention of highly productive financial planners. Many of our financial planners also sell non-insurance financial products, including our loan products as well as third-party mutual funds and trust products, in order to enhance their commission income.

In conjunction with our financial planner channel, we also operate the following:

- ***Branch Offices*** – As of March 31, 2017, we maintained a network of 583 branch offices in Korea, at which the operations of our financial planner channel are supported by our branch managers and support staff. While all of our support staff and most of branch managers are our employees, certain branch managers are independent agents engaged by us. Such branch managers generally enter into standardized agency agreements with us and receive performance-based compensation based on the overall performance of the branch office they manage. As of March 31, 2017, we had 1,018 branch support staff for our financial planner channel.

- ***Customer Plazas*** – In addition to our branch offices, we operate a nationwide network of “Customer Plazas” through which we offer and market a variety of financial products and services, including life insurance products and third-party fund and trust products, as well as financial advisory services relating to tax, real estate, risk assessment and investments. Our Customer Plazas also support the operations of our financial planner sales force through their advisory services and provide customer support to our existing policyholders. As of March 31, 2017, we had 59 Customer Plazas located throughout Korea, of which 13 were located in the Seoul metropolitan area.

- ***Nobiliare Centers*** – As part of our efforts to target high net worth individuals, we operate "Nobiliare Centers," through which we provide comprehensive and personal wealth management and a wide range of financial planning services to qualified high net worth individuals and other preferred customers recommended by our financial planners. As of March 31, 2017, we had seven Nobiliare Centers located in major metropolitan areas throughout Korea. Services offered at Nobiliare Centers include financial products investment consulting, real estate investment consulting, legal consulting, tax planning, retirement planning and estate transfer planning.

Bancassurance Channel

We have bancassurance agreements with all of the leading commercial banks and many of the securities firms and mutual savings banks in Korea, pursuant to which such financial institutions market and distribute our life insurance products through their branches in return for commission fees. Our bancassurance agreements with banks typically have terms of three years and are renewed automatically at the expiration of such term in the absence of a prior notice not to renew. We typically sell savings insurance products and annuities through our bancassurance channel. We also cater to high net-worth individuals through our partner banks' private banking centers, through which we believe we can upsell our products and efficiently generate higher margins.

We have a dedicated bancassurance sales team that regularly coordinates with our bancassurance partners to implement our distribution efforts for this channel. We provide customized training and sales support to our partner banks in order for their tellers to be knowledgeable about and effectively sell our products. We intend to enhance the operating performance of our bancassurance channel by developing additional products and services tailored for each of our major bancassurance partners and providing them with advanced training and integrated systems support.

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

	As of, or for the Year Ended, December 31,			As of, or for the Three Months Ended, March 31,	
	2014	2015	2016	2016	2017
Number of partner banks	15	14	14	14	14
Number of partner securities companies	13	12	12	12	12
Number of partner savings banks and cooperatives	65	58	58	58	60
Number of active partner branches (1)	5,637	5,142	5,102	3,741	3,699
Annualized premium equivalent per active branch (in thousands of Won) (2)	₩ 170,859	₩ 112,603	₩ 133,626	₩ 204,096	₩ 174,821

(1) The monthly average number of branches that have sold one or more policies per month.

(2) Calculated by dividing (i) the aggregate amount of first year premiums recognized, on an annualized basis, for policies sold through our bancassurance channel in a specified period by (ii) the monthly average number of active partner branches for such period.

Agency Channel

Insurance agencies are independent insurance brokerage companies that market and distribute a wide range of insurance products in return for commission fees. As of March 31, 2017, we had marketing arrangements with approximately 21 individual agencies and seven general agencies that sell our products on an exclusive basis, as well as 189 general agencies that sell our products on a non-exclusive basis. In recent years, the agency channel in Korea has developed into an important distribution channel for insurance products. The products we sell through the agency channel are primarily savings insurance products and annuities, and we plan to expand our distribution of protection-type insurance products through such channel in the future.

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

	As of, or for the Year Ended, December 31,			As of, or for the Three Months Ended, March 31,	
	2014	2015	2016	2016	2017
Number of individual agencies	32	25	23	23	21
Number of general agencies	264	224	203	219	196
Number of active agency employees (1)	3,321	3,013	2,399	2,914	2,535
Activity ratio(2)	7.1%	5.4%	4.1%	5.0%	4.4%

(1) The monthly average number of agency employees who have sold one or more policies per month.

(2) The ratio of (i) the monthly average number of active agency employees to (ii) the monthly average number of all employees of agencies with which we have marketing arrangements.

Many of the agencies utilized by us are operated by our former employees. We believe that the agencies operated by our former employees are capable of providing higher quality customer service due to their in-depth understanding of our product lines, operations and corporate culture, and play a critical role in supplementing our financial planner channel. We typically provide subsidies for startup costs such as office equipment and furnishing expenses, in return for meeting certain sales targets for our products within a specified period, and offer comprehensive training programs for employees of general agencies to educate them about our products. Our arrangements with agencies typically have terms of one year and are renewed automatically at the expiration of such term in the absence of a prior notice not to renew.

Direct Marketing Channel

We conduct direct marketing efforts through telemarketing as well as marketing on home shopping television networks and the Internet. Our telemarketing operations consist of both out-bound telemarketing consultants and multi-role, or compound, telemarketing consultants. As of March 31, 2017, we operated nine telemarketing customer centers nationwide with 131 out-bound telemarketing consultants and 197 compound telemarketing consultants. Out-bound telemarketing consultants utilize our database to solicit applications for new policies over the telephone, while compound telemarketing consultants seek to generate new business by conducting follow-up communications and in-person visits with existing policyholders. We also engage in out-bound in-person solicitation by utilizing our database. We plan to continue to seek a balanced expansion of solicitation activities by our out-bound telemarketing consultants and customer relationship management and cross-selling activities of our compound telemarketing consultants. We have also entered into marketing arrangements with Korea's leading home shopping television networks to market our insurance products to television viewers.

In response to the proliferation of electronic communication channels and increased usage of the Internet and mobile devices as a means of commercial activity, we have also invested in the development of an online platform to reach existing and prospective customers through our mobile application as well as our dedicated website at www.kyobo.co.kr. In addition, we established Korea's first online life insurance company, Kyobo Life Planet Life Insurance, in 2013 in which we currently hold a 92.5% equity interest. Kyobo Life Planet Life promotes and sells various types of life insurance products directly through the Internet (including via its proprietary mobile application), which is supported by its call center. We believe that the importance of mobile application and the internet as a marketing and distribution channel will continue to grow in the future, and we plan to continue to invest in enhancing our online platform to meaningfully supplement our more traditional channels.

Corporate Sales

In addition to the above channels that we utilize to market and distribute individual life insurance products, we operate a corporate sales channel for marketing and distributing our group insurance products and retirement pension plans to corporate and institutional clients. As part of our financial planner sales force, we engage approximately 884 group financial planners who market group insurance products principally to small- and medium-sized enterprises with fewer than 300 employees. Group financial planners primarily sell group life insurance plans, which contain elements of both protection-type products and annuity and savings insurance products, as well as group disability insurance and group health insurance plans, including medical expense reimbursement plans and disease-specific plans, which form a part of a company's employee benefit program. Our group financial planners also sell individual life insurance products to employees when opportunities arise during their marketing efforts to institutional clients.

In addition to our group financial planners targeting the group life insurance market, we have a dedicated corporate sales force consisting of approximately 69 employees operating from our headquarters who focus on marketing retirement pension plans to larger institutional clients. We segment the market for such plans into different industry categories and maintain dedicated sales teams with industry knowledge that specialize on each segment. We believe that matching our retirement pension sales teams with different industry segments enables us to build and maintain long-term relationships, which in turn provides us with additional opportunities to sell individual life insurance products to the employees of our institutional clients as well as group insurance products.

Operations

Underwriting and Pricing

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

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

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

We employed 63 actuaries certified in Korea as of March 31, 2017. Our actuaries who are not assigned to the actuarial department are staffed across various departments and provide technical expertise in connection with our business operations, including assisting in new product development and conducting risk management analysis.

Customer Relationship Management

We believe that customer service is one of our strengths, and we devote significant resources to the management, servicing and retention of our existing policyholders through our customer relationship management activities. Our efforts to enhance customer satisfaction levels and loyalty include the operation of a "Lifelong Care Service" program that monitors the needs of our customers throughout the term of their life insurance policies, through which our financial planners regularly remind customers of the coverage they are entitled to receive under their policies and check for any accident or illness that could have been covered by their policies. As a part of the Lifelong Care Service program, our financial planners also strive to identify the additional insurance needs of our customers by analyzing the adequacy of their current coverage level based on each customer's personal and family situation and providing recommendations to supplement or adjust the customer's life insurance coverage to better match his or her needs.

We operate three Customer Satisfaction Centers, which are telephone call centers that handle, various customer relations matters. Such Customer Satisfaction Centers are owned and operated by our consolidated subsidiary, KCA Service Co., Ltd., following its spin-off from us in January 2017. Our automated response system, which is the first in the Korean insurance industry to have adapted voice recognition software for increased convenience of customers, addresses basic policy inquiries and connects our customers to customer service representatives during business hours. Through our customer service representatives, our policyholders may make specific product and service inquiries, file complaints, report claims and update information regarding policyholders and beneficiaries, as well as request policy changes and apply for policy loans and withdrawals. In 2013, we became the first Korean insurance company to establish a dedicated line for customer complaints at our Customer Satisfaction Centers to ensure that our customers can communicate their concerns in an efficient and effective manner. In addition, we operate alternative customer service channels such as our mobile application and our website, which complement our traditional customer service channels. Our customers can make similar inquiries, complaints and service requests, as well as make online payments of premiums and receive payments for certain types of claims, through our mobile application and our website.

We maintain an extensive customer database that we use to segment our customers based primarily on a customer's current policy status, past policy purchases and interactions with our financial planners and personal and family demographics, while ensuring compliance with laws and regulations related to the protection of customer data, including the Personal Information Protection Act. We monitor and analyze such data on a regular basis to understand the reasons for fluctuations in demand from different customer segments, which serves as a basis for our future marketing and product development strategies. We develop analytical models based on such data in order to estimate the likelihood of additional policy purchases or policy surrenders for each customer segment, as well as to enhance our ability to match our distribution channels with potential customers. We also conduct customer satisfaction surveys by engaging external survey experts as well as invite customer panels to participate in both offline and online discussions to further ascertain customer needs and issues.

We also engage in data analysis to identify our most valuable customers. For our most valuable customers who meet certain purchase volume and loyalty criteria, we provide invitations to exclusive promotional events, as well as premium discounts for high-premium products. Our dedication to customer satisfaction has been recognized by third parties in recent years, including most recently by the FSS, which granted us the Best Life Insurance Company Award based on its Financial Consumer Protection Assessment in 2016.

Claims Management

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

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

Billing and Payment

Policyholders make payments through pre-authorized automatic debits from their designated bank account, by wire transfers to our designated bank account, by online payments using their personal accounts on our website, through our mobile application or in person at our branch offices or designated banks. Automatic debits are currently the most common method of collecting premium payments from customers, and we typically offer a 0.5% to 1.0% premium discount to encourage the use of this automatic payment method. Substantially all of our policyholders pay monthly premiums through pre-authorized automatic payment methods, and we do not send monthly billing statements to such policyholders. If the balance in the policyholder’s designated bank account as of the payment due date is insufficient to cover the premium payment then due, we will continue, after the payment due date, to submit automatic debit requests to the policyholder’s bank for the unpaid portion of the premium.

Collection

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

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

Reinsurance

We cede to reinsurance companies portions of the risks we assume under our policies. We have entered into reinsurance agreements with various reinsurance companies, including SCOR, Korean Re, Hannover Re, General Cologne Re, Munich Re, RGA Re and Meiji Yasuda Life Insurance. These reinsurance agreements spread the risk and reduce the effect on us of potential losses. In general, death risks relating to our protection-type life insurance products are primarily reinsured for the total amount of losses. Under our internal reinsurance policy, with respect to individual health, accident and critical illness insurance products, we cede on a "quota share" or percentage basis 25% of the total risk amount of our health insurance policies in force, 10% to 25% of the total risk amount of our accident insurance policies in force and 30% to 40% of the total risk amount of our critical illness policies in force. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the ceded portion in the event the claim is paid. However, we remain liable to our policyholders for the ceded portion if the reinsurer fails to meet the obligations assumed by it. In general, our reinsurance agreements with our reinsurers do not have a definite term, but some agreements allow for recapture of ceded insurance risk within five to ten years and agreements for new business may be terminated at the end of the year with advance notice of 90 days.

We do not reinsure any policies issued by other insurers.

General Account Investments

We maintain a diversified investment portfolio to generate investment returns to support our insurance liabilities and to enhance shareholder values. As of March 31, 2017, we had Won 70,139 billion of general account investment assets on a standalone basis, of which bonds and loans accounted for 67.7%. We invest insurance premiums received from our policyholders in domestic bonds (including Government and Government-related bonds, special purpose bonds, corporate bonds and financial institution bonds), loans (including policy loans, unsecured credit loans and loans secured by real estate and other assets), overseas securities (including foreign-currency denominated bonds, beneficiary certificates and structured securities), beneficiary certificates, real property investments and domestic equity securities. Our general account does not include assets of our separate accounts for which the customer assumes risks of ownership. We place our assets relating to our variable insurance products and retirement pension products in separate accounts pursuant to the Regulation on Supervision of Insurance Business.

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

	As of December 31,						As of March 31, 2017	
	2014		2015		2016			
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Cash and due from banks	₩ 852	1.4%	₩ 1,338	2.0%	₩ 1,018	1.4%	₩ 1,333	1.9%
Domestic debt securities	31,163	50.6	31,962	48.3	30,051	42.6	29,688	42.3
Domestic equity securities	1,872	3.0	1,741	2.6	1,725	2.4	1,696	2.4
Beneficiary certificates	4,180	6.8	4,446	6.7	5,047	7.2	4,969	7.1
Overseas securities	5,579	9.1	8,273	12.5	12,650	17.9	12,527	17.9
Loans (1)	15,748	25.6	16,288	24.6	17,893	25.4	17,768	25.3
Real property investments (2)	2,170	3.5	2,156	3.3	2,133	3.0	2,128	3.0
Other securities	18	0.0	38	0.1	26	0.0	28	0.0
Total	₩61,583	100.0%	₩ 66,242	100.0%	₩70,542	100.0%	₩70,139	100.0%

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

(2) Include land and buildings held as investment assets and real property used in our operations.

Management of Investments

Our investment philosophy is to seek stable, long-term growth in the value of our general account assets and to enhance our cash flow pursuant to our asset and liability management policies. We strive to establish a diversified and sound investment portfolio with a long-term perspective that is managed in accordance with our proactive and prudent risk management policies. Accordingly, we design asset mix strategies for our general account to match the characteristics of our insurance products and other obligations, which also reflects our desire to generate stable long-term returns while sustaining adequate solvency levels. We seek to achieve our investment objectives through asset and liability management and longer-term strategic and shorter-term tactical asset allocations within a disciplined risk management framework. Our asset allocation also reflects our desire for broad diversification across asset classes, sectors and issuers. In recent years, we have started to pursue a strategic asset allocation plan with an increased emphasis on alternative and overseas assets compared to previous years. We believe that the size and diversity of our portfolio and our flexible investment strategy enable us to seek out and benefit from attractive investment opportunities.

Our Risk Management Committee approves the investment policy for the general account, which includes investment guidelines, a target asset mix, risk tolerances and performance benchmarks, with support from our Asset Management Council as well as our Asset-Liability Management Council and Risk Management Council. It also reviews performance and risk positions on a quarterly basis. Our Asset Management Council, which comprises our chief financial officer and officers from our Asset Management Division as well as representatives from other divisions, including the Risk Management Team, is responsible for assessing market risks as well as overseeing the investment management process for our general account and has the authority to establish our strategic asset allocation plans and initiate tactical shifts within its investment guidelines and approved exposure ranges.

Our investment guidelines include: (1) performance goals for the investment portfolio; (2) specified asset allocations and investment scope based on regulatory provisions, level of indebtedness and market forecasts; (3) specified goals for investment duration and asset-liability matching requirements based on asset-liability matching strategies; (4) specified authorization levels required for approval of significant investments; and (5) specified risk management policies and prohibitions.

On a standalone basis, the average yield on our investment portfolio, net of management and administrative expenses, was 4.7%, 4.4% and 4.2% in 2014, 2015 and 2016, respectively, and 4.4% and 4.2% in the first three months of 2016 and 2017, respectively.

Cash and Due from Banks

Our deposits consist principally of foreign currency and time deposits and, together with our cash and cash equivalents (primarily consisting of money market deposits and demand deposits) represented, on a standalone basis, 1.4%, 2.0% and 1.4% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 1.9% of our total general account investment assets as of March 31, 2017.

We generally make foreign currency, time and other deposits with large Korean commercial banks as well as global banks. The terms of the deposits vary, and we make foreign currency and time and other deposits to obtain higher yields than can ordinarily be obtained with demand deposits.

Domestic Debt Securities

Our holdings of domestic debt securities constitute our largest investment category and represented, on a standalone basis, 50.6%, 48.3% and 42.6% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 42.3% of our total general account investment assets as of March 31, 2017. Our domestic debt securities consist primarily of Government and Government-related bonds, special bonds, corporate bonds and financial institution bonds. Government and Government-related bonds are sovereign debt of Korea. Special bonds are bonds issued by companies established pursuant to special Korean laws and regulations (including Government-controlled utility companies and banks established under special Korean laws and regulations). We also selectively invest in corporate bonds of Korean companies whose securities are rated as investment grade, as well as bonds issued by Korean financial institutions. As of March 31, 2017, substantially all of our domestic bond portfolio comprised bonds with a credit rating of A and above as rated by Korean rating agencies.

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

	As of December 31,						As of March 31, 2017	
	2014		2015		2016			
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Domestic bonds, available-for-sale:								
Government and public bonds	₩ 5,724	18.4%	₩ 6,118	19.1%	₩ 5,582	18.6%	₩ 5,611	18.9%
Special bonds	6,602	21.2	6,248	19.5	4,865	16.2	4,381	14.8
Financial institution bonds	80	0.3	125	0.4	123	0.4	135	0.5
Corporate bonds	2,210	7.1	2,170	6.8	1,997	6.6	1,941	6.5
Subtotal	14,616	46.9	14,661	45.9	12,568	41.8	12,069	40.7
Domestic bonds, held to maturity:								
Government and public bonds	9,394	30.1	9,947	31.1	10,302	34.3	10,460	35.2
Special bonds	5,473	17.6	5,591	17.5	5,475	18.2	5,464	18.4
Financial institution bonds	573	1.8	583	1.8	562	1.9	562	1.9
Corporate bonds	1,107	3.6	1,180	3.7	1,144	3.8	1,133	3.8
Subtotal	16,547	53.1	17,301	54.1	17,483	58.2	17,620	59.3
Total domestic debt securities	₩31,163	100.0%	₩31,962	100.0%	₩30,051	100.0%	₩29,688	100.0%

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

	As of December 31,			As of March 31,
	2014	2015	2016	2017
	(In billions of Won)			
Due within one year	₩ 2,390	₩ 2,701	₩ 1,848	₩ 1,080
Due within five years	9,572	8,891	7,842	7,997
Due within ten years	10,613	9,876	9,861	9,970
Due after ten years	8,588	10,495	10,499	10,642
Total	₩ 31,163	₩ 31,962	₩ 30,051	₩ 29,688

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

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

Beneficiary Certificates

Our holdings of domestic beneficiary certificates, evidencing ownership in investment trusts managed by investment management companies in Korea, represented 6.8%, 6.7% and 7.2% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 7.1% of our total general account investment assets as of March 31, 2017, on a standalone basis.

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

	As of December 31,						As of March 31,	
	2014		2015		2016		2017	
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Equity securities type beneficiary certificates	₩ 3,049	72.9%	₩ 3,786	85.2%	₩ 4,159	82.4%	₩ 4,291	86.4%
Beneficiary certificates in consolidated subsidiaries	145	3.5	149	3.3	137	2.7	136	2.7
Other beneficiary certificates [1]	986	23.6	511	11.5	751	14.9	542	10.9
Total beneficiary certificates	₩ 4,180	100.0%	₩ 4,446	100.0%	₩ 5,047	100.0%	₩ 4,969	100.0%

(1) Comprise money market fund equity securities.

Domestic Equity Securities

Our holdings of domestic equity securities and investments consist of shares of common and preferred stock of listed and unlisted Korean companies and ownership interests in domestic partnerships, as well as ownership interests (other than beneficiary certificates) in our consolidated subsidiaries, associates and jointly controlled entities, and represented, on a standalone basis, 3.0%, 2.6% and 2.4% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 2.4% of our total general account investment assets as of March 31, 2017.

The following table sets forth the carrying values of our domestic equity securities, on a standalone basis, as of the dates indicated.

	As of December 31,						As of March 31, 2017	
	2014		2015		2016			
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Listed shares	₩ 725	38.7%	₩ 636	36.5%	₩ 667	38.7%	₩ 639	37.7%
Unlisted shares	459	24.5	390	22.4	324	18.8	324	19.1
Equity investments	108	5.8	116	6.7	138	8.0	142	8.3
Equity investments in our subsidiaries, jointly controlled entities and associates (1) (2)	579	30.9	599	34.4	596	34.6	591	34.9
Total domestic equity securities	₩ 1,872	100.0%	₩ 1,741	100.0%	₩ 1,725	100.0%	₩ 1,696	100.0%

(1) Excludes ownership interests in certain investment trusts which are valued at fair value and categorized as beneficiary certificates.
(2) Includes ownership interests in certain subsidiaries that are incorporated outside of Korea.

Overseas Securities

Our holdings of overseas securities consist principally of foreign currency-denominated bonds issued by the Government and government agencies and foreign issuers including governments and corporations and, to a less extent, foreign currency-denominated beneficiary certificates and structured securities. Although long-term fixed income securities have become more accessible in Korea in recent years, the availability of such securities in the Korean financial markets has historically been limited, and we have increased our investments in overseas securities in recent years primarily to enhance our ability to match the duration of our interest-earning assets and interest-bearing liabilities. Our overseas securities are primarily denominated in U.S. dollars. We seek to hedge our foreign currency exposure under our overseas securities at the time of investment through currency swap contracts or other derivative instruments. Our holdings of overseas securities represented, on a standalone basis, 9.1%, 12.5% and 17.9% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 17.9% of our total general account investment assets as of March 31, 2017.

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

	As of December 31,						As of March 31, 2017	
	2014		2015		2016			
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Bonds	₩ 4,058	72.7%	₩ 7,034	85.0%	₩ 11,579	91.5%	₩ 11,273	90.0%
Beneficiary certificates	1,273	22.8	1,032	12.5	912	7.2	1,102	8.8
Structured securities	248	22.8	206	2.5	159	1.3	146	1.2
Equity securities(1)	—	—	—	—	—	—	5	0.0
Total overseas securities	₩ 5,580	100.0%	₩ 8,273	100.0%	₩ 12,650	100.0%	₩ 12,527	100.0%

(1) Excludes ownership interests in certain subsidiaries that are incorporated outside of Korea.

In recent years, we have been selectively increasing our investments in longer-duration treasury and investment grade corporate bonds in the United States and other overseas markets, which we believe have superior credit, duration and yield characteristics compared to domestic bonds, as part of our efforts to strengthen our asset and liability management, diversify our sources of income and enhance the returns of our investment portfolio. Such increase in the amount of our investments in overseas securities may expose us to additional investment risk, including foreign exchange risk. See "Risk Factors — Risks Relating to Our Business — Our investment risk may increase as we diversify our investment portfolio to include more overseas securities."

Loans

We offer various loan products to qualified retail and institutional borrowers, including policy loans to our existing policyholders, unsecured credit loans and loans secured by real estate and other assets. Our loans represented, on a standalone basis, 25.6%, 24.6% and 25.4% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 25.3% of our total general account investment assets as of March 31, 2017.

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

	As of December 31,			As of March 31,
	2014	2015	2016	2017
	(In billions of Won)			
Policy loans	₩ 5,908	₩ 5,819	₩ 5,858	₩ 5,803
Loans secured by real estate	3,822	4,242	5,038	4,811
Unsecured loans	5,525	5,593	6,132	6,187
Loans secured by third party guarantees	498	597	812	889
Other loans	21	57	72	99
Total loans	₩ 15,774	₩ 16,308	₩ 17,913	₩ 17,790
Present value discount	(1)	(1)	(1)	(1)
Allowance for doubtful accounts	(37)	(33)	(35)	(33)
Deferred loan origination cost	12	14	16	12
Total loans, net of present value discount, allowance for doubtful accounts and deferred loan origination cost	₩ 15,748	₩ 16,288	₩ 17,893	₩ 17,768

Policy loans are interest-bearing loans to our policyholders, who may borrow from us up to approximately 50% to 95% of the cash surrender values of their insurance policies depending on the type of policy. Policy loans are secured by the cash surrender value of the policies. Interest rates currently charged on these loans range from 2.75% to 10.5% per annum. We also offer secured and unsecured retail loans. Our secured retail loans are typically secured by real estate and provided to borrowers purchasing properties, with the maximum borrowing amount generally limited to 70% of the value of the collateral. The maturity of retail loans secured by real estate ranges from ten to 30 years. Interest rates currently charged on these loans typically range from 2.8% to 4.8% per annum. We also offer unsecured retail loans of up to Won 50 million and at interest rates currently ranging from 4.1% to 14.8% per annum, as well as retail loans secured by third party guarantees of up to Won 1 billion and at interest rates currently ranging from 2.8% to 4.8% per annum. The maturity of both unsecured retail loans and retail loans secured by third party guarantees is generally one to five years, and can be extended at the stated maturity date.

Our policyholders are pre-approved for policy loans of up to a predetermined percentage of the cash surrender value of their policies, and may take out such loans at our branch offices and Customer Plazas, through our telephone call centers or through our mobile application or our Internet website. For retail loans other than policy loans, we use an internally developed credit review system to review the creditworthiness of borrowers applying for loans and the accuracy of the information provided by such applicant. Individual borrowers for such loans are asked to visit our headquarters or one of our branch or sales offices for personal identity verification when applying for loans. Our credit review system takes into account information provided by the borrower on their applications, together with transaction history and credit information obtained from internal and external databases. Our internally developed credit review system used for retail loans is fully automated, so that once the information on the application form is input into our system, the system generates an initial approval or rejection based on our eligibility criteria and assigns a credit score, which score is then used to make additional assessments. The amount of the retail loan available to a borrower so approved and debt servicing cost of such loan are based, among other things, on the internally generated credit score of the borrower and the liquidity of the collateral.

We continuously monitor an individual borrower's condition with respect to his or her current debt, collateral and debt service capability. Based on our review, we may adjust the borrower's credit limits, applied interest rates and the credit policies relating to that borrower. We also use an electronic collateral evaluation and monitoring system to continuously review the liquidation value of collateral we hold. Using this system, we seek to assess the actual liquidation value of collateral, determine the recovery rate on our loans and use this information in determining maximum borrowing amounts, as well as in setting our credit risk management and loan policies.

We also provide a variety of loans to institutions, focusing principally on financing of public infrastructure projects, other project financings and loans to real estate investment trusts that are either guaranteed by the Government or municipalities or secured by a security interest in the project or real estate. The maturity of such loans to institutions ranges from 24 months to 38 years. Interest rates currently charged on these loans range from 2.16% to 8.00% per annum.

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

	As of December 31,			As of March 31,
	2014	2015	2016	2017
	(In billions of Won)			
Due in one year or less	₩ 1,255	₩ 1,726	₩ 1,467	₩ 1,568
Due after one year and through two years	1,045	885	715	848
Due after two years and through three years	485	302	572	444
Due after three years	12,963	13,376	15,139	14,909
Total loans	₩ 15,748	₩ 16,288	₩ 17,893	₩ 17,768

Real Property Investments

Our real property investments consist principally of real property held as investment assets, including land and buildings, as well as real property used in our operations. Real property investments represented, on a standalone basis, 3.5%, 3.3% and 3.0% of our total general account investment assets as of December 31, 2014, 2015 and 2016, respectively, and 3.0% of our total general account investment assets as of March 31, 2017.

The following table sets forth the carrying values of our real property investments as of the dates indicated.

	As of December 31,						As of March 31, 2017	
	2014		2015		2016			
	Carrying Value	%	Carrying Value	%	Carrying Value	%	Carrying Value	%
	(In billions of Won, except percentages)							
Land	₩1,433	66.0%	₩1,421	65.9%	₩1,418	66.5%	₩1,415	66.5%
Buildings	713	32.8	714	33.1	695	32.6	688	32.3
Structures	21	1.0	21	1.0	20	0.9	20	0.9
Construction in progress	2	0.1	0	0.0	—	—	—	—
Non-current assets held for sale	—	—	—	—	—	—	4	0.2
Others	1	0.1	—	—	—	—	—	—
Total real property investments	₩2,170	100.0%	₩2,156	100.0%	₩2,133	100.0%	₩2,128	100.0%

For additional information regarding our real property investments, including real property held as investment assets and real property used in our operations, see Notes 14 and 15 of the notes to our unaudited condensed consolidated interim financial statements and Notes 15 and 16 of the notes to our annual consolidated financial statements for 2016 and 2015.

Competition

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

Historically, the Korean life insurance industry has been dominated by Samsung Life Insurance Co., Ltd., Hanwha Life Insurance Co., Ltd. and us, which together had a combined market share of 46.2% of total gross premiums in 2016 and 45.5% in the first quarter of 2017, according to data from the Korea Life Insurance Association. We had the third largest market share in the industry with a 10.2% share of total gross premiums in 2016 and 10.4% in the first quarter of 2017. We also compete with small- to mid-sized domestic life insurance companies, such as Mirae Asset Life Insurance Co., Ltd., ING Life Insurance Korea, Ltd., Shinhan Life Insurance Co., Ltd., Heungkuk Life Insurance Co., Ltd. and Nonghyup Life Insurance Co., Ltd., as well as Korean affiliates of foreign life insurance companies, such as MetLife Insurance Company of Korea, Ltd., Tong Yang Life Insurance Co., Ltd. and Prudential Life Insurance Company of Korea, Ltd., whose parent companies may have greater experience and resources in their respective home markets. Furthermore, in specific areas such as accident and health insurance, savings insurance and variable insurance, our products also compete with those offered by property and casualty insurance companies, commercial banks, securities companies and asset management companies. In addition, risk protection products with insurance features are also sold by the Korea Post through its extensive nationwide branch network. Certain of our competitors are larger in terms of asset size and customer base, have greater financial resources, offer a broader range of products or have access to a more extensive distribution network than we do. Moreover, a number of our competitors are affiliated with large Korean business or financial groups, which may provide a competitive advantage to the extent that they are able to take advantage of such affiliation, including through cross-promotion opportunities and access to the existing customer base of their affiliates.

In our securities business, Kyobo Securities competes primarily with mid-sized securities companies, such as Daishin Securities Co., Ltd., KB Securities Co., Ltd., Eugene investment & Securities Co., Ltd., HMC Investment Securities Co., Ltd., KTB Investment & Securities Co., Ltd. and IBK Securities Co., Ltd. In addition, in particular areas such as investment banking and asset management, Kyobo Securities also competes with large securities companies, such as Samsung Securities Co., Ltd., NH Investment & Securities Co., Ltd. and Korea Investment & Securities Co., Ltd., as well as securities companies affiliated with other life insurance companies, such as Mirae Asset Daewoo Co., Ltd. Kyobo Securities' competition is based on a number of factors, including products and services, innovation, transaction execution, reputation, brand recognition and price.

Regulatory changes have also affected, and will continue to affect, the level of competition in the Korean life insurance and securities industries. For example, certain amendments to the Insurance Business Act adopted in 2003 and its related enforcement decree clarified that property and casualty insurance companies may sell products that offer death benefits in the case of death arising from illness, subject to certain limitations on liability. In addition, beginning in 2008, the FSS has permitted limited cross-selling of life insurance and property and casualty insurance products by financial planners working for life insurance or property and casualty insurance companies. See "Regulation and Supervision – Sales – Overlap of Products with General Insurance Companies." Property and casualty insurance companies are currently not permitted to offer certain whole life insurance, term life insurance, annuity or variable insurance products, but future deregulation may further intensify competition with property and casualty insurance companies.

Furthermore, a number of significant mergers and acquisitions in the financial industry have taken place in Korea in recent years, including the acquisition of Kumho Life Insurance Co., Ltd. by Korea Development Bank in 2010, the acquisition of Woori Aviva Life Insurance Co., Ltd., first by NongHyup Financial Group Inc. in 2014 and subsequently by DGB Financial Group in 2015, the acquisition of a controlling stake in Tong Yang Life Insurance Co., Ltd. in 2015 and the acquisition of Allianz Life Insurance in 2016, each by China's Anbang Insurance Group, and the acquisition of PCA Life Insurance Co., Ltd. by Mirae Asset Life Insurance Co., Ltd. in 2017. We expect that changes in the competitive landscape of the life insurance industry, as well as the financial industry generally, will continue.

In our bookstore business, Kyobo Book Center primarily competes with other large-scale bookstore chains, including Youngpoong Bookstore and Bandi & Luni's. Kyobo Book Center also competes with online retailers of books. Competition is based on a number of factors, including breadth and depth of available book content, price, accessibility and attractiveness of stores, brand awareness and reputation.

Information Technology and Operational Systems

Our information technology systems provide support to many aspects of our businesses, including product development, marketing and distribution, customer relationship management, business management, cost control and risk management. We are committed to remaining at the forefront of technological innovation in the Korean life insurance industry, including by seeking opportunities to develop advanced tools that enhance performance of our distribution channel. We intend to continue to make significant investments in our information technology and operational systems through various technology initiatives, including efforts to:

- enhance the effectiveness of our marketing and distribution channels and customer relationship management activities through increased connectivity and sharing of customer information, including through the development of a proprietary comprehensive information technology system, which is expected to be completed by the end of 2018;

- improve our product development, actuarial and investment management capabilities;
- enhance our risk management system and information security system;
- improve our disaster recovery system and implement effective business continuation plans to reduce the risk of system failures and the impact such failures may have on our business; and
- promote overall efficiency, productivity and control.

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

Properties

We own buildings and land throughout Korea with an aggregate book value of Won 2,103 billion as of March 31, 2017, including our headquarters building at 1, Jong-ro, Jongro-gu, Seoul, Korea, and Gangnam Kyobo Life Tower at 465, Gangnam-daero, Seocho-gu, Seoul, Korea. Portions of the properties we own are leased to various tenants on an arm's length basis.

Intellectual Property

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

Insurance

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

Employees

We had 3,556 full-time employees and 183 contract employees, as of March 31, 2017. The following table provides a breakdown of our employees, as of the dates indicated.

As of	Number of Full-time Employees	Number of Contract Employees	Total Number of Employees
December 31, 2014	3,882	344	4,269
December 31, 2015	3,914	213	4,170
December 31, 2016	4,017	215	4,275
March 31, 2017	3,556	183	3,739

In addition, our consolidated subsidiaries collectively had 4,587 employees (including 1,619 contract employees) as of December 31, 2014, 4,849 employees (including 1,904 contract employees) as of December 31, 2015, 5,061 employees (including 2,026 contract employees) as of December 31, 2016 and 5,170 employees (including 2,189 contract employees) as of March 31, 2017.

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

We have three labor unions, which had an aggregate of 2,748 members as of March 31, 2017. We also have a Joint Labor-Management Committee, which is comprised of seven members of our employees and seven members of our management and discusses employee welfare and benefits issues on an annual basis and more often as necessary. We have not experienced any strike or other material work stoppage in recent years and consider labor relations with our work force to be good.

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

In accordance with the National Pension Act of Korea, we contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. In addition, in accordance with the Guarantee of Worker's Retirement Benefits Act, we have adopted retirement pension plans for our employees. Contributions under the retirement pension plans are deposited annually into a financial institution, and an employee may elect to receive a monthly pension or a lump-sum amount upon retirement pursuant to either a defined benefit plan or a defined contribution plan. The defined benefit plan guarantees a certain payout at retirement, according to a fixed formula based on the employee's average salary and the number of years for which the employee has been a plan member. For further information regarding our defined benefit plan, see Note 28 of the notes to our unaudited condensed consolidated interim financial statements and Note 29 of the notes to our annual consolidated financial statements for 2016 and 2015.

As of the date of this offering circular, approximately 1.0% of our issued common shares were held by members of our employee stock ownership association. All of our employees are eligible to participate in our employee stock ownership association, which has the right to purchase on behalf of its members up to 20.0% of the shares that we offer publicly in Korea pursuant to the FSCMA. Employees who purchase our shares through our employee stock ownership association will be subject to a one-year lock-up period pursuant to Korean law.

Legal and Regulatory Proceedings

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

Our Consolidated Subsidiaries

In addition to our core life insurance operations, we engage in the securities business through Kyobo Securities, in which we hold a 51.6% interest, and operate Korea's largest chain of bookstores through Kyobo Book Center, our wholly-owned subsidiary.

Kyobo Securities

Kyobo Securities is a mid-sized securities company in Korea that engages in four principal business areas – securities brokerage, investment banking, derivatives sales and trading and proprietary trading – and also provides other financial services such as wealth management. Kyobo Securities has a diversified client base that includes both retail customers and institutional clients. Kyobo Securities was ranked as the sixteenth largest Korean securities company in terms of asset size, on a standalone basis, as of December 31, 2016 according to data compiled by the FSC.

On a standalone basis, Kyobo Securities' operating revenues were Won 730 billion in 2014, Won 1,031 billion in 2015 and Won 1,111 billion in 2016, and Won 390 billion in the first quarter of 2016 and Won 416 billion in the first quarter of 2017. On a standalone basis, Kyobo Securities recorded net income of Won 30 billion in 2014, Won 77 billion in 2015 and Won 63 billion in 2016, and Won 22 billion in the first quarter of 2016 and Won 18 billion in the first quarter of 2017. On a standalone basis, Kyobo Securities had total assets of Won 5,460 billion and total equity of 759 billion as of March 31, 2017.

In recent years, Kyobo Securities has focused on broadening its market presence by offering a wider range of products and services. The following table sets forth a breakdown of Kyobo Securities' operating revenues by business area on a standalone basis for the periods indicated:

	For the Year Ended December 31,						For the Three Months Ended March 31,			
	2014		2015		2016		2016		2017	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Securities brokerage	₩ 79	10.8%	₩ 114	11.1%	₩ 103	9.3%	₩ 25	6.5%	₩ 25	5.9%
Investment banking	63	8.6	115	11.2	83	7.5	22	5.6	14	7.0
Derivatives sales and trading	385	52.7	606	58.8	755	67.9	287	73.6	336	80.5
Proprietary trading	164	22.5	108	10.5	97	8.8	35	8.9	29	3.2
Others	39	5.3	88	8.5	73	6.6	21	5.3	14	3.4
Total	₩730	100.0%	₩1,031	100.0%	₩1,111	100.0%	₩390	100.0%	₩417	100.0%

The following table sets forth a breakdown of Kyobo Securities' operating profit (loss) by business area for the periods indicated:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2014	2015	2016	2016	2017
	(in billions of Won)				
Securities brokerage	₩ 5	₩ 36	₩ 19	₩ 4	₩ 1
Investment banking	25	78	61	16	10
Derivatives sales and trading	(8)	14	23	9	19
Proprietary trading	66	12	13	4	(1)
Others	(54)	(42)	(44)	(8)	(6)
Total	₩ 34	₩ 98	₩ 72	₩ 26	₩ 22

Securities brokerage. Kyobo Securities provides brokerage services and related financing services to retail customers and institutional clients who wish to purchase and sell various types of securities, including stocks and bonds. Kyobo Securities generates brokerage commissions from executing and clearing buy and sell orders of its clients, primarily on the KOSPI or the KOSDAQ. As of March 31, 2017, Kyobo Securities had a total of 309,310 client brokerage accounts. To support its securities brokerage business and other marketing efforts, Kyobo Securities provides research on companies, industries, economies and currencies.

Investment banking. As part of its investment banking business, Kyobo Securities underwrites securities offerings in the Korean securities market, either as lead manager or a member of an underwriting syndicate, and provides mergers and acquisitions and other financial advisory services to a diverse group of corporations and financial institutions in Korea. Kyobo Securities' underwriting activities include public offerings and private placements of a wide range of equity and debt securities and other financial instruments, including common and preferred stock, convertible and exchangeable securities, investment-grade debt, asset-backed securities and real estate-related securities, such as securities of real estate investment trusts. Financial advisory services include advisory assignments with respect to mergers and acquisitions, divestitures, restructurings and spin-offs.

Derivatives sales and trading. Kyobo Securities offers over-the-counter and exchange-traded derivative products, including futures, forwards, swaps and options, that enable its clients to hedge against market risk exposures. In order to mitigate its exposure with respect to such products, Kyobo Securities typically purchases "back-to-back" derivative products, with identical terms as the other-the-counter derivative product sold, from other financial institutions. In addition, Kyobo Securities engages in derivative transactions in order to hedge against its market risk exposures.

Proprietary trading. Kyobo Securities maintains a multi-strategy proprietary investment business that invests and trades for its own account in order to generate interest and dividend income and capital gains. As of March 31, 2017, Kyobo Securities' proprietary trading portfolio had a total book value of Won 3,112 billion, representing 57.0% of its total consolidated assets. Kyobo Securities relies on its analytical models to analyze information and make informed trading judgments, and it strives to benefit from perceived disparities in the relative value of assets in the trading markets, including debt, equity and equity-related instruments, and from macroeconomic and issuer-specific trends.

Others. Kyobo Securities provides other services such as wealth management (including operation of cash management accounts and wrap accounts), investment funds management and real estate leasing.

Kyobo Book Center

Kyobo Book Center is the largest retailer of books in Korea. Since the opening of its first bookstore in 1981, Kyobo Book Center has achieved growth by opening additional stores nationwide and continually renovating and remodeling its existing bookstores to optimize its operational scale and performance. Kyobo Book Center currently operates 12 stores located in Seoul, eight stores located in the greater Seoul metropolitan region (not including Seoul), 11 stores located elsewhere in Korea and seven additional campus stores located at leading universities in Korea. Kyobo Book Center's flagship store, which is located in the basement of the Kyobo Life Building in central Seoul, is the largest bookstore in Korea in terms of gross selling area as well as number of books offered and sold. In addition, Kyobo Book Center operates Korea's leading online bookstore at www.kyobobook.co.kr.

Kyobo Book Center's operating revenues were Won 525 billion in 2014, Won 523 billion in 2015 and Won 526 billion in 2016, and Won 149 billion in the first quarter of 2016 and Won 147 billion in the first quarter of 2017. Kyobo Book Center recorded net income of Won 10 billion in 2014, Won 12 billion in 2015 and Won 8 billion in 2016, and Won 12 billion in the first quarter of 2016 and Won 2 billion in the first quarter of 2017. Kyobo Book Center had total assets of Won 270 billion and total equity of 113 billion as of March 31, 2017.

RISK MANAGEMENT

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

Risk Management Infrastructure of Our Life Insurance Operations

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. Segregation of duties and management oversight are fundamental elements of our risk management process, and we have established a multi-tiered risk management governance structure. Our Risk Management Committee, chaired by Sung-Sik Hwang, our outside director, is ultimately responsible for the general oversight of our risk management process, as described below, and reports directly to our board of directors. Our Risk Management Council coordinates the execution of the overall policies and procedures established by the Risk Management Committee, while our Asset-Liability Management Council is responsible for overseeing the management of the strategies and policies regarding our insurance business' general account investment and life insurance product portfolios as well as matching, to the extent possible, the duration of our interest-bearing liabilities and our interest-earning assets supporting such liabilities. At the operational level, our Risk Management Team reports to the Risk Management Council and works closely with other divisions and business units to implement our risk management policies and procedures, while the Asset-Liability Management Team supports the Asset-Liability Management Council and works with the Risk Management Team in managing the long-term risks related to the duration of our interest-bearing liabilities, including our life insurance policy liabilities, and our interest-earning assets supporting such liabilities, including our life insurance business' general account investment assets.

The following diagram illustrates our overall risk management infrastructure:

Risk Management Committee

Our Risk Management Committee is responsible for overseeing all risks relating to our operations and advising our board of directors with respect to risk management-related issues. Our board of directors has delegated to the Risk Management Committee the board's authority and responsibility for ensuring effective overall management of the various risks we face in our business activities. The Risk Management Committee currently comprises three members of our board of directors, with the majority consisting of outside directors: Joong Hyo Lee (outside director), Sung-Sik Hwang (outside director) and Jeongdo Heo (head of the Strategic Planning Division and standing director). The Risk Management Committee meets on a regular basis and periodically reports on company-wide risk management issues to our board of directors as required. The principal activities of the Risk Management Committee include:

- establishing and reviewing our overall risk management policies and procedures and long-term plans relating to our risk management system;
- reviewing risks related to key management strategies, including those relating to our investments, reinsurance policies and new product development;
- determining specific risk tolerance levels and capital allocations for various business activities;
- monitoring, and approving strategies for maintaining, our risk-based capital adequacy and solvency levels;
- establishing criteria for asset quality evaluation and loss provisioning policies; and
- overseeing the operation of our risk management systems and coordinating with the Risk Management Council and the Asset-Liability Management Council to facilitate an integrated risk management workflow.

Risk Management Council

The Risk Management Council supports the Risk Management Committee by setting the agenda to be discussed and resolved by the Risk Management Committee and overseeing the implementation of the decisions of the Risk Management Committee. The Risk Management Council is also responsible for approving limits for, and monitoring, individual categories of risks and developing solutions when our risk exposures become likely to exceed the applicable limits. The Risk Management Council consists of the chief risk management officer and other senior officers of our company who hold positions of division head or above. The Risk Management Council convenes its meetings on a monthly basis.

Asset-Liability Management Council

The Asset-Liability Management Council supports the Risk Management Committee by reviewing the overall strategies for our life insurance business' general account investment assets and liabilities under insurance contracts, as well as supervising the management of our life insurance business' general account investment portfolio and life insurance product portfolio, from an asset-liability management perspective. The Asset-Liability Management Council also establishes targets for, and monitors, the duration of our interest-bearing liabilities and our interest-earning assets supporting such liabilities as well as our overall liquidity and sufficiency of reserves on an ongoing basis. The Asset-Liability Management Council consists of five members, including the chief financial officer, the chief investment officer, the head of the product development and support division, the chief distribution officer and the chief marketing officer. The Asset Management Council convenes its meetings on a monthly basis.

Principal Risks of Our Life Insurance Operations

Market Risk Management

Market risk refers to the risk of changes in the returns on, and market value of, our trading and investing positions due to fluctuations in market factors such as interest rates, stock prices and exchange rates. The principal market risk to which we are exposed is interest rate risk, which primarily arises due to mismatches in the interest rates applicable to, or the maturities or re-pricing periods of, our interest rate-sensitive assets and liabilities. See "– Interest Rate Risk Management." To a lesser extent, we are also exposed to equity price risk, which arises from exposure of our investment portfolio to changes in prices and volatilities of beneficiary certificates, individual equity securities and equity indices, as well as exchange rate risk, which results from exposure to changes in spot prices, forward prices and volatilities of currencies. See Note 55-6 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our exposure to market risk related to our interest-earning assets and interest-bearing liabilities as of December 31, 2016 and 2015.

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

Sensitivity analysis measures the impact of hypothetical changes in market rates on our profitability and financial condition. See Note 55-6-3 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding the estimated effects on our net income and total equity of specified increases and decreases in interest rates, exchange rates and equity prices.

Credit Risk Management

Credit risk represents the loss that we would incur if a counterparty failed to perform its contractual obligations to us or upon a deterioration in the credit quality of a counterparty, including borrowers or other third parties whose securities or other instruments we hold or who reinsure portions of the risks we assume under our life insurance products. Our exposure to credit risk principally arises through our investing, lending and reinsurance ceding activities. See Note 55-5 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our credit risk exposures as of December 31, 2016 and 2015.

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

Interest Rate Risk Management

Our results of operations depend, in part, on our level of net interest income and our effective management of the impact of changing interest rates and varying asset and liability maturities. In particular, changes in market interest rates may affect the level and timing of recognition of gains and losses on investment assets held in our life insurance business' general account investment portfolio, which consists mainly of debt securities. In addition, some of our life insurance products, principally fixed annuities and savings insurance policies with guaranteed minimum interest or annuity payments, require us to pay fixed rates of return to policyholders and therefore expose us to the risk that changes in interest rates will reduce our "spread," or the difference between the amounts that we are required to pay under the relevant policies and the rate of return we are able to earn on our general account investments intended to support our obligations under the policies. See Note 55-4-3 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our interest rate risk exposure as of December 31, 2016 and 2015.

We seek to manage interest rate risk through adjustments to our asset and liability portfolio mix and terms, such as decreasing the guaranteed level of interest crediting rates applied to our insurance products, and by managing, to the extent possible, the average duration and maturity of our assets and liabilities. We also manage interest rate risk through asset and liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. We periodically evaluate our interest rate risk exposure and closely monitor any changes to identify the primary factors for such change and to take appropriate remedial measures. The annual interest rate risk limit is set in accordance with our overall business plan and monitored on a regular basis.

Liquidity Risk Management

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

We closely monitor factors that could affect our liquidity management, including increases in surrender or termination of existing policies or policy benefit payments and decreases in premium payments or investment returns. We periodically evaluate and manage our liquidity risk exposure in terms of liquidity ratios and liquidity gaps and monitor our short-term liquidity positions on a daily basis. As part of our liquidity risk management process, we use a number of quantitative tools, including stress tests, which are used as necessary to assess the sensitivity of our liquidity risk exposure to abnormal market fluctuations. We also maintain a liquidity contingency plan to prepare for potential funding emergencies such as surges in claims for cash payments by policyholders or bank failures in an economic crisis. Our liquidity contingency plan includes an action plan with respect to funding priorities, roles and responsibilities of our various teams and business units, and establishment of an internal emergency committee. Results of our stress tests are utilized to modify and enhance our liquidity contingency plan on a regular basis.

See Note 55-7-3 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding the maturities of our insurance contract and financial liabilities as of December 31, 2016 and 2015.

Insurance Risk Management

We establish and carry, as a liability, policy reserves based on the greater of statutory reserves and actuarial estimates of how much we will need to pay for future life insurance benefits and claims. Insurance risk is the risk of loss arising from our claims experience being different from reserved amounts as a result of variations from the actuarial estimates we used when designing and pricing our life insurance products. Our earnings depend significantly upon the extent to which our actual claims results are consistent with the assumptions used in setting the prices for our life insurance products and establishing our reserves for future policy benefits and claims. To the extent that trends in actual claims results are less favorable than our underlying assumptions used in establishing these reserves, and our total reserves are considered to be inadequate to meet our future contractual obligations as and when they arise, we are exposed to insurance risk. See Note 55-3 of the notes to our annual consolidated financial statements for 2016 and 2015 for information regarding our insurance risk exposure as of December 31, 2016 and 2015.

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

Our insurance underwriting process involves the evaluation of policy applications for our life insurance products by a professional staff of underwriters who determine the type and the amount of risk that we are willing to accept. We employ detailed and uniform underwriting policies, guidelines and procedures designed to assist our underwriters in assessing and quantifying risks before issuing a policy to qualified applicants. Our insurance underwriters generally evaluate the risk characteristics of each prospective policyholder. Requests for coverage are reviewed on their merits, and generally a policy is not issued unless the particular risk has been examined and approved for underwriting. If the policy amount exceeds a specified amount, we require the applicant to take a variety of underwriting tests including medical examinations as well as obtain consumer investigative reports. In addition, we have authorization limits for insurance underwriting personnel depending on their level of qualifications. In order to maintain high standards of insurance underwriting quality and consistency, we regularly engage in internal underwriting audits. We also review our claims assessment procedures periodically to further mitigate our insurance risk.

Variable Insurance Guarantee Risk Management

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

Non-Financial Risk Management

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

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

- the training, supervision and professional development of our employees;
- active participation of and communications with senior management in a continuous process of identifying and mitigating key non-financial risks;
- regular assessment of fundamental risk exposure as prescribed under the Regulation on Supervision of Insurance Business; and
- development and implementation of non-financial risk measurement standards.

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

Our Risk Management Team is responsible for establishing and implementing a standardized framework to identify, measure, monitor and manage non-financial risk. This framework, which evolves with the changing needs of our businesses and regulatory guidance, takes into account internal and external non-financial risk events, business environment and internal control factors and the ongoing analysis of business-specific risk metrics. While individual business units have direct responsibility for the control and mitigation of non-financial risk, this framework provides a consistent methodology for identifying and monitoring operational risk factors at the business unit and company-wide levels. Such framework includes tools to measure our operational risk on a monthly basis and an annual self-assessment system based on contingency scenarios.

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

Risk Management of Kyobo Securities

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

- establishing overall risk management policies in accordance with the directives of the board of directors;
- approving limits for each type of risk and setting limits for integrated risk levels; and
- approving internal regulations and guidelines on risk management.

Kyobo Securities categorizes key areas of risks into credit risk, market risk, interest rate risk, liquidity risk, operating risk, legal risk, reputational risk and systems risk. Its Risk Management Council supports the Risk Management Committee by establishing and managing integrated policies and procedures for risk management, as well as overseeing the activities of its Risk Management Team and the risk management systems of Kyobo Securities. The Risk Management Team, which is in charge of implementing and monitoring the operations of Kyobo Securities' risk management policies and procedures, is supported by individual business units with respect to risk management activities for specific business segments and the Transaction Settlement Team with respect to monitoring accuracy and appropriateness of transaction settlement activities and maintaining accurate recordkeeping.

MANAGEMENT

Board of Directors

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

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

Directors

The table below sets forth our directors, and their ages and positions, as of the date of this offering circular. The business address of each of our directors, as well as our executive officers, is our registered office at 1, Jong-ro, Jongro-gu, Seoul 03154, Korea.

Name	Age(1)	Position	End of Current Term	Other Current Positions
Chang-Jae Shin	63	Representative Director; Chief Executive Officer	March 2020	Chairman, Daesan Foundation for Culture
Jeongdo Heo	54	Standing Director; Executive Vice President and Chief Marketing Officer	March 2020	None
Young Taeg Park	57	Outside Director	March 2018	Chairman, Affinity Equity Partners
Hari R. Rajan	39	Outside Director	March 2018	Managing Director, Corsair Capital Partners
Joong Hyo Lee	70	Outside Director	March 2018	None
Sung-Sik Hwang	60	Outside Director	March 2018	President, Samchully Co., Ltd.

(1) As of March 31, 2017.

Chang-Jae Shin has served as our representative director and chief executive officer since May 2000. Mr. Shin is our largest shareholder and currently also serves as the chairman of Daesan Foundation. Previously, Mr. Shin served as our president and vice-president and a professor in the College of Medicine at Seoul National University. Mr. Shin holds Bachelor of Science, Master of Science and Doctor of Medicine degrees from College of Medicine at Seoul National University.

Jeongdo Heo has served as our standing director since March 2017. He has also served as our Chief Marketing Officer since June 2017. Previously, Mr. Heo served as head of our Strategic Planning Division and Project Management Office and representative director of our consolidated subsidiaries, Kyobo Book Center Co., Ltd. and Kyobo Hottracks Co., Ltd. Mr. Heo holds a Bachelor of Arts degree in Asian history from Seoul National University.

Young Taeg Park has served as our outside director since October 2012. Mr. Park currently also serves as chairman and managing partner of Affinity Equity Partners. Previously, Mr. Park served as partner and head of Korea at UBS Capital and in various capacities at Samsung Electronics including Treasurer of North America operations and head of International Finance and Investors Relations Group. Mr. Park holds a Bachelor of Arts degree in economics from Sungkyunkwan University and a Master of Business Administration degree from the Wharton School at University of Pennsylvania.

Hari R. Rajan has served as our outside director since March 2014. Mr. Rajan currently also serves as managing director and partner of Corsair Capital Partners. Previously, Mr. Rajan served as a member of the Emerging Markets Financial Institutions Group at J.P. Morgan Chase & Co. Mr. Rajan holds a Bachelor of Arts degree in economics and applied mathematics from Yale University and a Master of Business Administration degree from the Wharton School at University of Pennsylvania.

Joong Hyo Lee has served as our outside director since March 2016. Previously, Mr. Lee served as standing advisor at AhnKeon Accounting Firm, chairman of Kyobo Foundation for Education and our representative director. Mr. Lee holds a Bachelor of Arts degree in economics, a Master of Business Administration degree and a Doctor of Philosophy degree in Business Administration from Kyunghee University.

Sung-Sik Hwang has served as our outside director since March 2016. Mr. Hwang also serves as president of Samchully Co., Ltd. Previously, Mr. Hwang served as executive officer of our company and Kyobo Book Center Co., Ltd. Mr. Hwang holds Bachelor of Arts and Master of Arts degrees in business administration from Seoul National University and a Doctor of Philosophy degree in Business Administration from the Korea Advanced Institute of Science and Technology.

Executive Officers

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

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

Name	Age[1]	Title and Responsibilities	Executive Officer Since
Your-Hyun Yun	58	Senior Executive Vice President and Chief Distribution Officer	2006
Bong Kweon Park	53	Senior Executive Vice President and Chief Investment Officer	2011
Joo Hyun Hwang	63	Senior Executive Vice President and Chief Information Technology Officer	2016
Seokki Lee	52	Executive Vice President and Head of Management Support and Capital Management	2003
Jin Ho Park	52	Executive Vice President and Head of Retirement Pension Division	2005
Yoon Soo Seok	56	Executive Vice President and Head of Overseas Investment & Outsourcing Team	2005
Dae Sig Seo	55	Executive Vice President and Head of Direct Marketing	2008

Name	Age(1)	Title and Responsibilities	Executive Officer Since
Sung Han Kim	55	Executive Vice President for Policy Research & Support and Brand Communication	2008
Hak Soo Choi	56	Executive Vice President for Financial Management and Internal Audit Management Officer	2008
Dae Chang Jeong	54	Executive Vice President for Nobilliare Center, Consultant Care Center and Field Management Support (Greater Seoul Metropolitan Area)	2008
Da Hyun Kook	59	Executive Vice President and Head of Audit Team	2010
Yun Seok Kim	56	Executive Vice President and Head of Product Development & Support Division	2010
Uk Kim	55	Executive Vice President for Digital Innovation and Fintech Development Task Force	2010
Jeong Bum Pyun	54	Executive Vice President and Head of Strategic Planning Team	2011
Youngjin Yoo	58	Executive Vice President and Head of Kangnam Regional Sales Division; Head of Financial Planner Recruiting and Training Support	2012
Yeonjae Shin	53	Executive Vice President and Head of Group Sales Division 1	2012
Seok Jung Kang	55	Executive Vice President for Human Resources	2012
Woo Soon Bae	54	Executive Vice President, Head of Financial Management Team, Appointed Actuary, and Head of Management Infrastructure Task Force	2012
Sang Man Shin	54	Executive Vice President, Chief Risk Officer and Head of Risk Management Team	2012
Sam Geol Lyoo	54	Executive Vice President for Variable Assets	2012
Min Hak Yun	57	Senior Vice President and Head of Insurance Service Division	2013
Young Woo Park	54	Senior Vice President and Head of Asset Management Division	2013
Mi Young Hwang	55	Senior Vice President for Bancassurance and General Agency Business	2013
Kumjoo Huh	53	Senior Vice President and Head of Group Sales Division 2	2013
Seo Yong Park	48	Senior Vice President and Head of Channel Marketing Support	2014
Do Soo Kim	56	Senior Vice President and Head of Investment Business Division	2014
Gi Young Kim	57	Senior Vice President, Head of Customer Care Center, Chief Customer Officer and Chief Consumer Officer	2015
Hyun-Seop Kwon	54	Senior Vice President and Head of Honam Regional Sales Division	2015
Hyuck Jong Cho	55	Senior Vice President and Head of Alternative Investment Division	2015
Jai Dong Park	53	Senior Vice President and Head of Daegu Regional Sales Headquarters	2015
Ki Hwan Kim	57	Senior Vice President, Chief Information Security Officer and Chief Privacy Officer	2015
Uk Min	54	Senior Vice President and Head of Investment Analysis Team	2016
Dae Gyu Cho	52	Senior Vice President and Head of Training Team and Human Resource Development Training Center	2016
Jong Jin Lee	52	Senior Vice President and Deputy Head of Human Resource Development Training Center	2016
Hwa Jeong Choi	52	Senior Vice President and Acting Head of Bancassurance Division	2016
Yeong Sik Yoo	56	Senior Vice President and Head of Credit & Loan Division	2017
Jae Myung Park	50	Senior Vice President and Acting Head of Busan Regional Sales Division	2017
Jo Young Ahn	52	Senior Vice President and Head of Asset Portfolio Management Team	2017

(1) As of March 31, 2017.

Board Practices

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

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

Executive Candidate Recommendation Committee

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

The Executive Candidate Recommendation Committee currently consists of three directors: Joong Hyo Lee, Sung-Sik Hwang and Chang-Jae Shin. The Executive Candidate Recommendation Committee holds meetings when candidates for outside directors, Audit Committee members or the representative director need to be recommended or upon the request of a member of the committee.

Audit Committee

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

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

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

The Audit Committee currently consists of three directors: Sung-Sik Hwang, Young Taeg Park and Joong Hyo Lee. Meetings of the Audit Committee are held quarterly, and more often on an *ad hoc* basis if necessary.

Risk Management Committee

The Risk Management Committee is responsible for overseeing all risks relating to our operations and advising our board of directors with respect to risk management-related issues. The principal activities of the Risk Management Committee include:

- establishing and reviewing our overall risk management policies and procedures and long-term plans relating to our risk management system;
- reviewing risks related to key management strategies, including those relating to our investments, reinsurance policies and new product development;
- determining specific risk tolerance levels and capital allocations for various business activities;
- monitoring, and approving strategies for maintaining, our risk-based capital adequacy and solvency levels;
- establishing criteria for asset quality evaluation and loss provisioning policies; and
- overseeing the operation of our risk management systems and coordinating with the Risk Management Council and the Asset-Liability Management Council to facilitate an integrated risk management workflow.

See "Risk Management." The Risk Management Committee currently consists of three directors: Jeongdo Heo, Sung-Sik Hwang and Joong Hyo Lee. Meetings of the Risk Management Committee are held every two months, and more often on an *ad hoc* basis if necessary.

Management Committee

The Management Committee deliberates and decides matters delegated by our board of directors with the aim of enhancing professionalism and efficiency in decision-making. Our Management Committee reviews issues relating to our business management, finance and directors that are delegated to the committee by our board of directors pursuant to the committee's regulations or otherwise from time to time and makes recommendations to our board of directors.

The Management Committee currently consists of four directors: Joong Hyo Lee, Sung-Sik Hwang, Chang-Jae Shin and Jeongdo Heo. Meetings of the Management Committee are held on an *ad hoc* basis as necessary, upon the request of a member of the committee.

Remuneration Committee

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

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

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

The Remuneration Committee currently consists of three directors: Sung-Sik Hwang, Hari R. Rajan and Chang-Jae Shin. Meetings of the Remuneration Committee are held at least annually, and more often on an *ad hoc* basis if necessary.

Compensation of Key Management

Remuneration

The aggregate compensation (including short-term and long-term benefits and retirement and severance benefits) granted to our key management, consisting of our directors, was Won 1.6 billion, Won 1.5 billion and Won 1.5 billion in 2014, 2015 and 2016, respectively, and Won 0.6 billion and Won 0.7 billion in the first quarters of 2016 and 2017, respectively. As of March 31, 2017, there were no loans or stock options granted by us to any of our directors or executive officers.

Interests of Directors and Executive Officers

As of March 31, 2017, there were no outstanding transactions other than in the ordinary course of business undertaken by us in which our directors or executive officers were interested parties.

Certain of our and our affiliated companies' directors and executive officers have direct or beneficial interests in our shares, including our representative director and chief executive officer, Chang-Jae Shin. See "Principal Shareholders." Other than Mr. Shin, other directors and executive officers of our company and our affiliated companies, as a group, held an aggregate of 4,295 shares of our outstanding common stock, which represented approximately 0.02% of our issued and outstanding common shares as of such time, and of which 3,985 shares were held in the name of our employee stock ownership association.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information relating to our shareholder composition as of March 31, 2017.

Shareholder	Number of Common Shares Owned	Percentage of Total Common Shares Outstanding
Chang-Jae Shin.	6,925,474	33.8%
Corsair Korea Investors LLP	2,007,766	9.8
Guardian Holdings Limited.	1,885,250	9.1
Tiger Holdings LP	1,562,650	7.6
Export-Import Bank of Korea	1,199,001	5.9
KLI Investors LLC	1,092,165	5.3
Hoenir Inc.	1,071,125	5.2
KLIC Holdings Limited	1,071,125	5.2
Apfin Investment Pte Ltd	922,500	4.5
In-Jae Shin	518,600	2.5
Life Investors of Korea LP	472,350	2.3
AXA	460,000	2.2
Kyung-Ae Shin	350,002	1.7
Young-Ae Shin	289,992	1.4
Triumph II Investments (Ireland) Limited	220,000	1.1
Meiji Yasuda Life Insurance Company	205,000	1.0
Others[1]	277,000	1.3

(1) Including 204,950 common shares held by our employee stock ownership association.

Other than as set forth in the table above or under "Management — Interests of Directors and Executive Officers," none of our current directors or executive officers has direct or beneficial interests in our common shares. In addition, other than as set forth in the table above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or severally, owned more than 5% or more of our outstanding common shares or exercised control or could exercise control over us as of the date hereof.

TERMS AND CONDITIONS OF THE SECURITIES

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

The U.S.$500,000,000 3.95 per cent. Subordinated Capital Securities (the "**Securities**") of Kyobo Life Insurance Co., Ltd. (the "**Issuer**") are issued subject to and with the benefit of an Agency Agreement to be dated July 24, 2017 (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, Citibank N.A., London Branch as fiscal agent and transfer agent (the "**Fiscal Agent**," the "**Principal Paying Agent**" and, together with any other paying agents appointed from time to time under the Agency Agreement, the "**Paying Agents**"), Citigroup Global Markets Deutschland AG as registrar (the "**Registrar**"), Citibank N.A., London Branch as calculation agent (the "**Calculation Agent**") and the other agents named in it (together with the Fiscal Agent, the Registrar, the Calculation Agent and the other Paying Agents, the "**Agents**").

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

1. FORM, DENOMINATION AND TITLE

1.1 Form and principal amount

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

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

The Securities are not issuable in bearer form.

1.2 Title

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

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

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

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

2.2 **Delivery of new Certificates**

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

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

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

2.3 **Formalities free of charge**

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

2.4 **Closed periods**

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

2.5 **Regulations**

All transfers of Securities and entries on the register of Securityholders will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Securityholder who requests one.

3. **STATUS**

3.1 **Status**

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

3.2 **Subordination**

(a) *Subordination*

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

(b) *Set-off*

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

4. **DISTRIBUTION**

4.1 **Distributions**

Subject to Conditions 4.6 and 4.7, each Security shall entitle the Securityholder thereof to receive distributions (“**Distributions**” and each a “**Distribution**”) from and including July 24, 2017 (the “**Issue Date**”) at the applicable Distribution Rate in accordance with the provisions of this Condition.

4.2 **Distribution Rate**

The Distribution Rate applicable to the Securities shall be:

(a) in respect of the period from, and including, the Issue Date to, but excluding, July 24, 2022 (the “**Initial Reset Date**” and such period, the “**Initial Rate Period**”), 3.95 per cent. per annum (the “**Initial Distribution Rate**”);

(b) in respect of the period from, and including, the Initial Reset Date to, but excluding, July 24, 2027 (the "**Step-Up Date**"), a rate per annum equal to the sum of the Treasury Rate plus the Initial Spread (the "**Initial Reset Distribution Rate**"); and

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

Subject to Condition 4.7, Distributions shall be payable on the Securities semi-annually in arrear on January 24 and July 24 in each year (each, a "**Distribution Payment Date**"), with the first Distribution Payment Date falling on January 24, 2018 in respect of the period from, and including, the Issue Date to, but excluding, such first Distribution Payment Date.

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

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

4.3 **Calculation of Distribution Rate**

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

4.4 **Distribution accrual**

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

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

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the

Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agents and all Securityholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Securityholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

4.6 **Optional cancellation of Distributions**

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

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

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

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

4.8 **Distributions non-cumulative**

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

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

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

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

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

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

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

5. **PAYMENTS**

5.1 **Payments in respect of Securities**

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

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

5.2 **Payments subject to applicable laws**

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

5.3 **Payment on Payment Business Days**

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

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

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

5.4 **Partial payments**

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

5.5 **Agents**

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

(a) there will be a Fiscal Agent;

(b) there will be a Registrar; and

(c) there will be a Calculation Agent.

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

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

6. REDEMPTION AND PURCHASE

6.1 Issuer redemption and automatic extension

Unless previously redeemed or purchased and cancelled as provided below, the Issuer may, at its option, redeem the Securities, in whole but not in part, at their outstanding principal amount on July 24, 2047 (the "**Initial Issuer Redemption Date**") and on each date that falls thirty, or a multiple of thirty, calendar years after the Initial Issuer Redemption Date (each such date together with the Initial Issuer Redemption Date, an "**Issuer Redemption Date**"); *provided* that, if the Securities are not redeemed at the option of the Issuer on any Issuer Redemption Date, the tenor of the Securities will automatically be extended for 30 years from such Issuer Redemption Date; *provided* further that, if any Issuer Redemption Date would fall on a date that is not a Business Day, it will be postponed to the next Business Day.

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

6.2 Optional redemption

The Issuer may, on the Initial Reset Date and on each Distribution Payment Date thereafter, upon giving notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent not less than 30 days but no more than 60 days prior to the proposed redemption date, redeem the Securities, in whole but not in part, at a redemption price equal to the principal amount of the Securities plus any accrued but unpaid Distributions to (but excluding) the date of redemption (other than any Distribution which has been cancelled pursuant to the provisions set forth in Condition 4.6 or 4.7) (the "**Optional Redemption Price**"); *provided* that:

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

(b) either:

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

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

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

The requirements set forth in clauses (a) and (b) above and the paragraph immediately above are hereinafter referred to as the "**Optional Redemption and Purchase Conditions**."

6.3 Gross-Up Event redemption

Subject to the satisfaction of the Optional Redemption and Purchase Conditions, if a Gross-Up Event has occurred and is continuing, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

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

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

6.4 Regulatory Event redemption

Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Regulatory Event, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

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

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

6.5 Accounting Event redemption

Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of an Accounting Event, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

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

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

6.6 **Tax Deductibility Event redemption**

Subject to the satisfaction of the Optional Redemption and Purchase Conditions and upon the occurrence of a Tax Deductibility Event, the Issuer may, at any time upon giving not less than 30 days' notice to the Securityholders in accordance with Condition 11 and to the Fiscal Agent, redeem the Securities, in whole but not in part, at the Optional Redemption Price.

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

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

6.7 **No Other Redemption**

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

6.8 **Purchase and cancellation of Securities**

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

6.9 **Notice final**

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

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

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

7. TAXATION

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

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

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

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

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

8. PRESCRIPTION

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

9. NON-PAYMENT

9.1 Non-payment when due

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

9.2 Proceedings for Winding-Up

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

9.3 **Enforcement**

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

9.4 **Extent of Securityholders' remedy**

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

10. **REPLACEMENT OF CERTIFICATES**

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

11. **NOTICES**

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

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

12.1 **Meeting of Securityholders**

The Agency Agreement contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the modification by Extraordinary

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

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

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

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

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

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

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

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

12.2 Modification

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

12.3 Substitution or Variation

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

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

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

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

Notwithstanding the foregoing, should a substitution or variation take place at the option of the Issuer under this Condition 12.3, Conditions 3.2, 4.2, 4.6, 4.7, 4.8, 6.2 and 15 will survive to the extent that they are necessary for the Securities to qualify as hybrid securities pursuant to Article 7-9 of the Regulation on Supervision of Insurance Business (as amended or modified from time to time, the "RSIB") or the Detailed Enforcement Regulations on Insurance Business Supervision.

12.4 Approval

Notwithstanding any of the above, no provision of Securities may be amended without the prior written consent of the FSS (if then required) if such amendment would or may result in Securities not being treated as regulatory capital of the Issuer under applicable regulations.

13. GOVERNING LAW AND SUBMISSION TO JURISDICTION

13.1 Governing Law

The Agency Agreement and the Securities are governed by, and will be construed in accordance with, English law, except that Condition 3.2 is governed by, and will be construed in accordance with, Korean law.

13.2 Jurisdiction of English Courts

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

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

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

13.3 **Appointment of Process Agent**

The Issuer hereby irrevocably and unconditionally appoints Kyobo Life London Office as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

14. **RIGHTS OF THIRD PARTIES**

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

15. **DEFINITIONS**

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

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

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

(c) "**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in both Seoul and New York City.

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

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

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

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

(f) "**Comparable Treasury Issue"** means the U.S. Treasury security having a maturity comparable to the Reset Period and selected by an internationally recognised investment banking firm selected by the Issuer that is a primary U.S. government securities dealer as one that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to the Reset Period.

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

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

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

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

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

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

(m) "**Initial Spread**" means 2.091 per cent. per annum.

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

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

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

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

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

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

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

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

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

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

(s) "**Reference Treasury Dealer Quotations**" means, with respect to a Calculation Date, the average, as determined by the Principal Paying Agent, of the bid and ask prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Issuer at 5:00 p.m. New York time on such Calculation Date by each of the three internationally recognised investment banking firms selected by the Issuer that are primary U.S. government securities dealers.

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

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

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

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

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

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

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

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

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

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

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

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

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

(gg) "**Treasury Rate**" means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the rate (expressed in per cent. per annum) notified by the Calculation Agent to the Issuer and the Securityholders (in accordance with Condition 12) equal to the yield, under the heading that represents the average for the week immediately prior to the relevant Reset Determination Date, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System, available on the world-wide-website of the Board of Governors of the Federal Reserve System at http://www.federalreserve.gov/releases/h15/ or any successor site, and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue, or if there is no Comparable Treasury Issue with a maturity date that falls within three months before or after the following Reset Date after such Reset Period, yields for the two published maturities most closely corresponding to such Reset Period will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the relevant Reset Determination Date or does not contain such yields, the Treasury Rate shall be the rate (expressed in per cent. per annum) equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the relevant Reset Determination Date.

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

THE GLOBAL CERTIFICATE

The Global Certificates contain provisions which apply to the Securities in respect of which the Global Certificates are issued, some of which modify the effect of the Conditions of the Securities. Terms defined in the "Terms and Conditions of the Securities" have the same meaning in the paragraphs below.

General

The Securities will initially be represented by one or more Global Certificates. The Securities sold to QIBs in reliance on Rule 144A will be issued initially in the form of one or more Rule 144A Global Certificates in fully registered form without interest coupons, which will be deposited with Citibank, N.A., London Branch, as custodian for DTC (in such capacity, the "Custodian") and registered in the name of Cede & Co., as nominee of DTC. The Securities sold in offshore transactions in reliance on Regulation S will be initially in the form of one or more Regulation S Global Certificates in fully registered form without interest coupons, which will be deposited with the Custodian and registered in the name of Cede & Co., as nominee of DTC, for the accounts of Euroclear and Clearstream, each of which maintains a U.S. depositary that is a participant in DTC.

Investors may hold their interests in the Global Certificates directly through DTC, Clearstream or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Euroclear and Clearstream will hold interests in the Regulations S Global Certificates on behalf of their participants through DTC. Persons who are not participants in such clearing systems may beneficially own interests in the Global Certificates held by DTC only through participants in such clearing systems or indirect participants (as defined below). Participants include certain securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

So long as the Securities are represented by Global Certificates and such Global Certificates are held by DTC or any other clearing system or by a nominee of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Securities represented by the applicable Global Certificates for all purposes under the Agency Agreement, including, without limitation, obtaining consents and waivers thereunder, and neither the Fiscal Agent nor we shall be affected by any notice to the contrary. Neither the Fiscal Agent nor we shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any participant or indirect participant of such clearing system. The clearing systems will take actions on behalf of their participants (and any such participants will take actions on behalf of any indirect participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable Global Certificate and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

All interests in the Global Certificates, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of their respective systems.

DTC has advised us that it will take any action permitted to be taken by a holder of Securities (including, without limitation, the presentation of Securities for exchange as described below) only at the direction of one or more participants and only in respect of the principal amount of the Securities represented by the Global Certificate as to which such participant or participants has or have given such direction.

Payments

Payment of Distributions and principal on the Global Certificates will be made to Cede & Co., the nominee for DTC, or such other nominee as may be requested by an authorized representative of DTC, as the registered owner of the Global Certificates by wire transfer of immediately available funds. Neither we nor the Principal Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates by DTC, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest by DTC.

We have been informed by DTC that upon receipt of any payment of Distributions on or the principal of the Global Certificates, DTC will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the Global Certificates as shown on the records of DTC. We expect that payments of Distributions on and principal of the Securities held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream participants or Euroclear participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by participants to owners of beneficial interests in the Global Certificates held through such participants will be the responsibility of such participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name."

Cancellation

Cancellation of any Security represented by the Global Certificates following its redemption or purchase by us will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the aggregate principal amount of the Securities in the register of Securityholders.

Transfers

The Securities (including beneficial interests in the Global Certificates) will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement and will bear a legend regarding such restrictions as set forth under "Transfer Restrictions." Under certain circumstances, transfers may be made only upon receipt by the Registrar of a written certification (in the form(s) provided in the Agency Agreement).

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream and Euroclear ("Clearstream participants" and "Euroclear participants," respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Securities, cross-market transfers between DTC, on the one hand, and Clearstream participants or Euroclear participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be. Any beneficial interest in one of the Global Certificates that is transferred to an entity which takes delivery in the form of an interest in the other Global Certificate will, upon transfer, cease to have an interest in such Global Certificate and receive an interest in the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Certificate for as long as it retains such an interest.

Notices

So long as the Securities are represented by one or more Global Certificates and the Global Certificates are held on behalf of DTC or any other clearing system, notices to Securityholders required by the Terms and Conditions of the Securities may be given by delivery of the relevant notice to DTC or such other clearing system (as the case may be) for communication by it to entitled accountholders.

Individual Securities

If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by us within 90 days, we will issue individual Securities in certificated, definitive registered form in exchange for the Global Certificates.

Subject to the transfer restrictions set forth on the individual Securities in certificated form, the holder of such individual Securities in certificated form may transfer or exchange such Securities in whole or in part by surrendering them at the specified office of the Registrar. Prior to any proposed transfer of individual Securities in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Registrar. Upon the transfer, exchange or replacement of individual Securities in certificated form not bearing a legend referred to under “Transfer Restrictions,” the Registrar will deliver individual Securities in certificated form that do not bear a legend. Upon the transfer, exchange or replacement of individual Securities in certificated form bearing a legend, or upon specific request for removal of a legend on an individual Security in certificated form, the Registrar will deliver only individual Securities in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to us such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by us that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Singapore Paying Agent

For so long as the Securities are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Certificate is exchanged for individual Securities, and unless we obtain an exemption from the SGX-ST, we will appoint and maintain a paying agent in Singapore where the individual Securities may be presented or surrendered for payment or redemption and make an announcement of such exchange through the SGX-ST, and such announcement will include all material information with respect to the delivery of the individual Securities, including details of the paying agent in Singapore

Miscellaneous

DTC has advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for the physical movement of certificates.

Although DTC, Clearstream and Euroclear have established the foregoing procedures in order to facilitate transfers of interests in the Global Certificates among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the Fiscal Agent will have any responsibility for the performance by DTC, Clearstream and Euroclear, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

REGULATION AND SUPERVISION OF THE KOREAN LIFE INSURANCE INDUSTRY

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

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

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

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

Authorization and License

Criteria for Establishment

Under the Insurance Business Act, an entity seeking authorization to engage in insurance business in Korea must have (i) paid-in capital of not less than Won 30 billion; (ii) sufficient manpower and adequate facilities; (iii) sound and reasonable business plans; and (iv) a large shareholder meeting certain eligibility criteria. If the large shareholder is a financial institution, it is required to meet the following criteria:

- the large shareholder's equity must not be less than 300% of the total amount of investment in the insurance company;
- the financial soundness of the large shareholder must meet certain standards;
- if the large shareholder belongs to a large business group under the Monopoly Regulation and Fair Trade Act, the debt ratio of such group may not exceed 200%;
- the large shareholder must not have been subject to any criminal penalty equivalent to or more severe than a criminal fine during the last five (5) years for violation of certain laws regulating the financial industry, including the Insurance Business Act, the Banking Act, the FSCMA, the Monopoly Regulation and Fair Trade Act and the Punishment of Tax Evaders Act;
- for the last five years, the large shareholder must have maintained sound credit level by not failing to perform its obligations;
- if the large shareholder was a large shareholder or a related party of a financial institution which has been designated as a distressed financial institution pursuant to the Act on the Structural Improvement of the Financial Industry or whose license, registration or approval has been revoked pursuant to certain financial regulations, the large shareholder must have satisfied the standards as declared by the FSC by bearing the economic responsibility resulting from the distress;
- the amount to be invested by the large shareholder must not have been obtained through a loan; and
- the largest shareholder must not have received any administrative sanctions equivalent to or more severe than an institutional warning for the last one year, or a corrective order or business suspension for the last three years.

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

Eligibility for Becoming an Officer

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

Approval of Large Shareholders

A person seeking to become a large shareholder of an insurance company through acquisition of the company's shares must meet certain criteria as set forth in the Corporate Governance Act and its subordinate regulations, and obtain prior approval from the FSC. Specific criteria differ based on whether or not such large shareholder is a financial institution, a fund, a local or foreign enterprise or individual or a private equity fund.

Ongoing Eligibility Requirements for the Largest Shareholder

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

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

Revocation of License

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

Sales

Scope of Business of Life Insurance Companies

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

Upon approval by the FSC, a life insurance company may operate (i) a life insurance business, (ii) a retirement pension business and (iii) type three insurance businesses. A life insurance company may also operate financial businesses and incidental businesses designated by the Enforcement Decree of the Insurance Business Act. Such activities include:

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

Overlap of Products with General Insurance Companies

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

Retirement Pension

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

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

Variable Life Insurance

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

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

General Terms of Insurance Policy

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

Insurance Solicitation

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

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

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

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

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

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

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

Bancassurance

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

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

New Premium Calculation Method

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

Products

Basic Documents for Insurance Products

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

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

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

Accounting and Risk Management

Calculation

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

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

Risk Management

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

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

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

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

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

- assets that will mature within three months must be greater than 80% of liabilities that will mature within the same period; and

- with respect to the maturity for foreign currency assets and liabilities, as follows:

    - if the term to maturity is not more than seven days, liabilities may not exceed assets; and

    - if the term to maturity is not more than one month, liabilities may not exceed 10% of assets.

Dividends to Policyholders of Participating Products

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

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

Asset Management

Restrictions on Asset Management

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

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

- extension of credits to the same individual or corporation: 3% or less of total assets;
- the aggregate amount of bonds and shares issued by the same corporation: 7% or less of total assets;
- the aggregate amount of credits extended to and the bonds and shares issued by the same borrower: 12% or less of total assets;
- the aggregate amount of credits extended in excess of 1% of total assets to the same individual, corporation, borrower or large shareholder (including its specially related parties): 20% or less of total assets;
- extension of credits to large shareholders and certain subsidiaries: 40% or less of shareholder’s equity (or, in the event that the amount equivalent to 40% of shareholder’s equity is larger than the amount equivalent to 2% of total assets, 2% or less of total assets);
- the aggregate amount of bonds and shares issued by large shareholders and certain subsidiaries: 60% or less of shareholder’s equity (or, in the event that the amount equivalent to 60% of shareholder’s equity is larger than the amount equivalent to 3% of total assets, 3% or less of total assets);
- extension of credits to the same subsidiary: 10% or less of shareholder’s equity;
- holding of permitted real estate: 25% or less of total assets; and
- holding of foreign exchange or foreign real estate: 30% or less of total assets.

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

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

Restrictions on Dealings with Large Shareholders

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

Restrictions on Equity Investments

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

Establishment and Operation of Separate Accounts

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

Restrictions on Foreign Exchange Transactions

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

Restrictions on Derivatives Trading

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

Prohibition on Transactions with Financial Institutions and Companies

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

Prohibition on Provision of Guarantees

Under the Insurance Business Act, insurance companies are generally prohibited from pledging its assets as a security or a guarantee for repayment of a third party's debt obligations, except for purchasing credit derivative-linked securities or credit-linked deposits or providing guarantees with respect to debt obligations of subsidiaries engaging in the insurance business overseas.

Internal Control

Board Composition

Under the Corporate Governance Act, an insurance company with total assets of not less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) as of the end of the latest fiscal year is required to have a board of directors consisting of at least three independent directors, who must constitute a majority (or a quarter in the case of an insurance company with total assets of less than Won 300 billion) of the board of directors. The chairman of such board must be an independent director, failing which the insurance company must publicly disclose such fact and separately appoint a lead independent director. The board of directors must also establish an executive candidate recommendation committee, an audit committee, a risk management committee and a remuneration committee. The majority of the members of such committees must be composed of independent directors, and the chairman of each committee must be an independent director.

Audit Committee

Under the Corporate Governance Act, an insurance company with total assets of not less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) as of the end of the latest fiscal year is required to have an audit committee consisting of at least three directors, in which (i) outside directors make up not less than two thirds of the total members and (ii) at least one member is an expert in accounting or finance, such as a certified public accountant.

Risk Management Committee

Under the Corporate Governance Act, a risk management committee is required to review and adopt the following matters: (i) basic policies and strategies for risk management; (ii) level of risk to be taken by the insurance company; (iii) approval of adequate maximum investment volume and permitted loss; (iv) establishment and amendment of risk management standards; and (v) any other matters as prescribed by the FSC.

Internal Control Mechanism

For the purposes of compliance with applicable laws and regulations, sound management of its assets and protection of its policyholders, an insurance company is required to establish internal control procedures and standards in accordance with which its officers and employees are required to perform their duties.

Internal control standards of an insurance company are required to include information concerning the following: (i) a division of duties within, and the organizational structure of, the company; (ii) procedures to be duly observed by the company's officers and employees in performing their duties; (iii) duties to be performed by directors, officers and compliance officers for internal control; (iv) individuals and support groups specializing in internal control; (v) establishment of a system through which information necessary for decision making can be efficiently conveyed; (vi) procedures and methods by which the company may verify whether its officers and employees adhere to its internal control standards, and penalties on violation of such standards; (vii) procedures and standards employed by a company to prevent its officers and employees from engaging in unfair trade practices; (viii) procedures to be followed when establishing or modifying internal control standards; (ix) procedures for the appointment and removal of a compliance officer; (x) measures and procedures for managing conflicts of interest; (xi) a compliance manual relating to the contents and production of advertisements for insurance products and services; (xii) evaluation and management of requirements for concurrent office positions of officers and employees under the Corporate Governance Act; and (xiii) additional detailed standards as prescribed by the FSC.

In addition, an insurance company must establish a "risk management standard" which sets forth standards and procedures for recognizing, monitoring and controlling risks involved in management of its assets, performance of duties and entering into various transactions.

Compliance Officer and Risk Management Officer

An insurance company is required to designate at least one compliance officer to undertake to check compliance with internal control standards and investigate and report any violation to the audit committee. In addition, an insurance company must designate at least one risk management officer to monitor and manage risks arising out of management of its assets, performance of duties and entering into various transactions.

Each of the compliance officer and the risk management officer is required to perform his or her supervisory duties in good faith and may not undertake any tasks relating to the core function of the insurance business such as management of the company's assets or sale of its insurance products. In case an insurance company has total assets of not less than Won 5 trillion (Won 2 trillion if such insurance company is publicly listed) as of the end of the latest fiscal year, its compliance officer and risk management officer may not in principle be the same person. Appointment of a compliance officer must be approved by a resolution of the board of directors and removal of such compliance officer requires two-thirds of the votes from the members of the board of directors.

Risk-Based Supervision of Insurance Companies

Pursuant to its authority under the Regulation on Supervision of Insurance Business and the Detailed Enforcement Regulations thereof, the FSS has developed a risk-based insurance supervision framework for insurance companies consisting of the following three pillars:

- *risk assessment and application system*, to assess the risk profiles and risk management systems of insurance companies;
- *risk-based capital adequacy requirements*, to require insurance companies to hold adequate capital to cover their risk exposures; and
- *risk-related disclosure requirements*, to strengthen market discipline by expanding public disclosure requirements for insurance companies regarding their risk profiles and risk management systems.

Risk Assessment and Application System ("RAAS")

All insurance companies operating in Korea are subject to periodic risk assessments by the FSS under RAAS. RAAS seeks to comprehensively and systematically assess an insurance company's risks and management weaknesses by evaluating the company's risk exposure, risk control and risk tolerance. Quantitative assessments under RAAS are conducted on a quarterly basis, while qualitative assessments are generally conducted on an annual basis.

The risk exposure of an insurance company is quantitatively assessed by measuring such company's exposure to six specified categories of risks, which consist of insurance risk, interest rate risk (including asset and liability management risk), investment risk (market risk and credit risk), liquidity risk, solvency margin risk and operational risk, as well as such company's profitability level. The FSS uses 17 quantitative indicators to measure an insurance company's risk exposure across the seven risk categories. Risk control is qualitatively assessed with a focus on the adequacy of an insurance company's risk management systems and internal controls. Risk tolerance is quantitatively assessed by measuring an insurance company's capital adequacy and earnings in order to evaluate its ability to absorb potential losses caused by failures to properly manage risk. An insurance company is given a rating between 1 (strong) and 5 (critically deficient) for each area of risk assessment, as well as an overall comprehensive risk grade ranging from 1 to 5.

If an insurance company receives a rating of 4 or lower for its solvency margin risk or any two of its insurance risk, interest rate risk and investment risk, the FSS may recommend that such insurance company improve its management through, among other things, improvements in operation of organization and human resources, increases or decreases of capital and restrictions on launch of new businesses. For an insurance company that receives an overall comprehensive risk grade of 4 or lower, the FSS may direct such insurance company to implement management improvements through, among other things, branch closures, restrictions on branch openings, requests for executive management changes and partial suspensions of business. Regardless of the overall comprehensive risk grade of an insurer, the FSS also closely monitors on an ongoing basis any specific risk assessment category of such company that is rated 4 or lower in the prior quarterly or semi-annual RAAS assessment.

Risk-Based Capital Adequacy Requirements

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

In addition, effective December 31, 2016, the FSS increased the confidence level applied in determining the credit risk amount for calculating the statutory risk-based capital adequacy ratio of insurance companies from 97% to 99% and required such statutory risk-based capital adequacy ratio to be calculated on a consolidated basis. The FSS has also announced that it plans to introduce a new regulatory solvency regime for insurance companies based on the ICS developed by the International Association of Insurance Supervisors, which would be similar in substance to the Solvency II Directive of the European Union, by 2018. The Solvency II Directive, which has been in effect in the European Union since January 1, 2016, is a comprehensive program of regulatory requirements for insurance companies, covering authorization, corporate governance, supervisory reporting, public disclosure and risk assessment and management, as well as solvency and reserving. Under the FSS' planned new solvency regime in Korea, among other things, insurance contract liabilities are expected to be measured based on market value, rather than book value, which would require a number of life insurance companies in Korea with a large portfolio of high guaranteed rate of return products to obtain additional capital to meet their capital adequacy requirements. As an interim measure, the FSS also recently announced its plans to implement a series of incremental changes to the calculation methodology for the risk-based capital adequacy ratio of insurance companies, including increasing the maximum statutory duration of insurance liabilities recognized for purposes of such calculation to 30 years (from the current maximum of 20 years), as well as reducing the coefficient applied in calculating interest rate risk from 1.85% to 1.50%, and adjusting the methods used to assess the risk of guaranteed benefits of variable insurance policies, beginning in June 2017.

Disclosure Requirements

An insurance company is required to disclose the following information within three months of the closing of its books, provided that, any material relating to a quarterly period must be disclosed within two months:

- information relating to finances, profits and losses;
- information relating to financing and management of funds;
- information on corporate structure and personnel;
- management indexes relating to stability, profitability and productivity;
- information relating to risk management, including establishment and management of risk management standards under the Corporate Governance Act;
- any decision to modify accounting standards that may have a material effect;
- any matter that may have a material effect on the company's related parties; and
- any matter prescribed by the Governor of the FSS as having a material effect on the insurance business.

An insurance company is also required to disclose the details relating to any of the following immediately upon such occurrence:

- measures taken under Article 123(2) of the Insurance Business Act, such as the receipt of an order to increase capital or placing limits on holding of risky assets;

- measures taken under Article 131(1) of the Insurance Business Act to protect the interests of existing policyholders and the insured;

- measures taken under Article 134 of the Insurance Business Act due to an insurance company's failure to comply with the laws and regulations applicable to the insurance business;

- measures taken under Article 10 of the Act on the Structural Improvement of the Financial Industry (timely corrective measures taken by the FSC) or Article 14 of the Act on the Structural Improvement of the Financial Industry (administrative disposition by the FSC);

- information relating to insurance products, such as terms of insurance contracts, business operations manuals, insurance premiums, return premiums and schedule of basic rates;

- emergency measures taken against an insurance company by the FSC; and

- in case of non-listed insurance companies, matters which (i) have a material impact on the financial structure, management environment, assets and liabilities or claims and obligations of such company; or (ii) involve investment, shareholding relationship, profit and loss structure and other information which may have a material impact on such company's business management.

Restrictions under the Insurance Business Act Applicable to Affiliates and Subsidiaries

Under the Insurance Business Act, insurance companies are prohibited from engaging directly or indirectly in the following acts with any of its large shareholders (including specially related persons): (i) extending any credit for the purpose of assisting such shareholder in making an equity investment in another company; (ii) transferring any assets to such shareholder without receiving any consideration; or (iii) engaging in dealings or exchanges with, extending credit to, or receiving insurance premiums from or executing reinsurance contracts with, such shareholder on terms that are significantly disadvantageous to the insurance company. In addition, in order for an insurance company to extend credit to, or acquire bonds or shares issued by, any of its large shareholders in an amount exceeding the lesser of 0.1% of such company's equity capital and Won 1 billion, prior approval by a unanimous vote of such company's board of directors is required. When calculating such threshold amount, the amount of the shares issued by a large shareholder that the insurance company acquires through transactions on the KRX KOSPI Market, the KRX KOSDAQ Market or analogous stock market located outside of Korea shall not be taken into consideration. Following the consummation of such transaction, the insurance company is required to immediately report the transaction to the FSC and publicly disclose it, including by publication on the company's website.

Insurance companies are prohibited from transferring to, purchasing from or exchanging with their subsidiaries any assets, or extending credit to their subsidiaries, on terms that substantially differ from the prevailing market standards. Insurance companies also may not extend credit that is secured by any shares owned by their subsidiaries, or extend credit in support of any investment made by their subsidiaries in other companies. Insurance companies are also generally prohibited from extending loans to officers or employees of their subsidiaries.

TAXATION

The following summary is based upon the tax laws of Korea and the United States as in effect on the date of this offering circular, and is subject to any change in the tax laws of Korea or the United States that may come into effect after such date. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Securities. Investors in the Securities are advised to consult their own tax advisers as to the tax consequences under the tax laws of Korea or the United States or any other consequences of the purchase, ownership and disposition of the Securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following discussion only applies to non-resident individuals and non-Korean corporations ("Non-Residents") who do not have a permanent establishment in Korea and for whom the income of the Securities is not effectively connected with a Korean trade or business. Non-Residents that have a permanent establishment in Korea or for whom the income on the Securities is effectively connected with a Korean trade or business should consult their tax advisors with respect to an investment in the Securities.

Tax on Distributions

In principle, interest paid to a Non-Resident by a Korean company is subject to withholding of Korean income tax or corporation tax at the rate of 14% plus a tax surcharge at the rate of 10% (raising the total tax rate to 15.4%) unless reduced or exempted by relevant laws or tax treaties. However, the Special Tax Treatment Control Law of Korea (the "STTCL") exempts payments of interest on notes, such as Distributions paid on the Securities, denominated in a foreign currency (excluding payments to a Korean corporation or resident or a permanent establishment of a Non-Resident) from Korean income or corporation tax, provided that the offering of the Securities is deemed to be an overseas issuance under the STTCL.

Tax rates may be reduced or exempted by applicable tax treaties, conventions or agreements between Korea and the country of the recipient of the interest. The relevant tax treaties are summarized below.

Tax upon Redemption due to Gross-Up Event

It is not entirely clear under the Korean tax law whether the payment of the make whole amount by the Issuer in excess of the principal amount and any accrued but unpaid Distributions on such principal amount upon redemption of the Securities in case of a Gross-Up Event will be treated as interest, capital gains or possibly other income. Based on previous rulings from the Korean tax authorities, however, it is likely that such excess portion will be treated as interest, in which case the above discussion on tax on interest would be applicable. Please refer to "— Tax on Capital Gains" below for the tax consequences in case such excess portion will be classified as capital gains. If treated as other income, the excess portion will be subject to Korean withholding tax at the rate of 22% (including local income tax) unless exempt under an applicable Korean tax treaty. In the event such excess portion is subject to Korean withholding tax, the Issuer is obliged to pay additional amounts to ensure that, after the deduction or withholding of such withholding tax, the amount that would otherwise have been received by the Holder of the Securities in respect of the relevant payment in the absence of such deduction or withholding of such withholding tax is received by the Holder of the Securities, subject to certain exceptions as set out in Condition 7 of the "Terms and Conditions of the Securities."

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Securities to other Non-Residents (unless the sale is to the Non-Resident's permanent establishment in Korea). In addition, capital gains earned by Non-Residents from the transfer of the Securities taking place outside of Korea are currently exempt from taxation by virtue of the STTCL, provided that the issuance of the Securities are deemed to be an overseas issuance and foreign currency denominated under the STTCL.

Where a Non-Resident sells Securities in Korea or to the permanent establishment in Korea of a Non-Resident, in the absence of an applicable treaty or any other special tax laws reducing or eliminating capital gains tax, the applicable rate of tax is the lower of 11% (including local income tax) of the gross realization proceeds (the "Gross Realization Proceeds") or, subject to the production of satisfactory evidence of the acquisition cost and transferring expenses of the Securities, 22% (including local income tax) of the gain made. The gain is calculated as the Gross Realization Proceeds less the acquisition cost and direct cost related to the acquisition and transfer. Unless the seller can claim the benefit of an exemption of tax under an applicable treaty and in the absence of the seller producing satisfactory evidence of its acquisition cost and direct cost related to the acquisition and transfer in relation to the Korean securities being sold, the purchaser or any other designated withholding agents of the Securities, as applicable, must withhold an amount equal to 11% (including local income tax) of the Gross Realization Proceeds.

Any withheld tax must be paid no later than the tenth day of the month following the month in which the payment for the purchase of the Securities occurred. Failure to timely transmit the withheld tax to the Korean tax authorities technically subjects the purchaser or the withholding agent to penalties under Korean tax law.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or resided in Korea for at least 183 days immediately prior to the death and (b) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the tax rates vary from 10% to 50% according to the value of the relevant property and the identity of the persons involved.

Under Korean inheritance and gift tax laws, notes issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned.

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

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders of the Securities in connection with the issue or transfer of the Securities as long as the relevant documents are executed outside of Korea. No securities transaction tax will be imposed on the transfer of the Securities.

Tax Treaties

As of the date of this offering circular, Korea has tax treaties with over 70 countries including, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, the People's Republic of China, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America under which the rate of withholding tax on interest is reduced, generally to between approximately 5% and 16.5% (including local income tax), and the tax on capital gains is often eliminated. Under the Korea-U.S. Tax Treaty, the rate of withholding tax on interest may not exceed 13.2% and capital gains generally may not be subject to tax. Each holder of the Securities should consult his or her own tax advisors as to whether he or she is entitled to the benefit of a tax treaty with Korea with respect to any transaction involving the Securities.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder should submit to the payer of such Korean source income an application (for reduced withholding tax rate, "application for entitlement to reduced tax rate" and in the case of exemption from withholding tax, "application for exemption" under a tax treaty along with a certificate of the non-resident holder's tax residence issued by a competent authority of the Non-Resident holder's residence country) as the beneficial owner ("BO Application"). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) ("OIV"), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

Certain United States Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a beneficial owner of the Securities that is a citizen or resident of the United States, a domestic corporation or is otherwise subject to U.S. federal income tax on a net income basis in respect of the Securities (a "U.S. holder"), as well as certain considerations (described in "– Information Reporting and Backup Withholding" below) relevant to a Securityholder that is not a U.S. holder. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Securities. In particular, the summary deals only with Securityholders that will acquire Securities as part of the initial offering and will hold them as capital assets. It does not address the tax treatment of Securityholders that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, tax-exempt entities, financial institutions, traders in securities that elect to use the mark-to-market method of accounting for their securities, partnerships that hold the Securities or partners therein, non-U.S. persons who are individuals present in the United States for 183 days or more within a taxable year, persons whose functional currency is not the U.S. dollar, persons that hedge their exposure in the Securities or will hold the Securities as a position in a "straddle" or "conversion" transaction or as part of a "synthetic security" or other integrated financial transaction, or a person that owns or is deemed to own 10% or more of our voting stock. Moreover, this discussion does not address state, local, or foreign taxes, any tax consequences relating to the alternative minimum tax or the Medicare tax on investment income or any tax consequences other than U.S. federal income tax consequences (such as the estate or gift tax).

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, in each case as of the date hereof, and the United States – Republic of Korea Income Tax Convention (the "Treaty"), changes to any of which subsequent to the date of this offering circular may affect the tax consequences described herein, possibly with retroactive effect. You should consult your own tax advisors about the tax consequences of the purchase, ownership and disposition of the Securities in light of your particular circumstances, including the tax consequences under state, local, foreign and other tax laws and the possible effects of any changes in applicable tax laws.

Tax Treatment of Payments on the Securities

The Securities will constitute our direct, unsecured and subordinated obligations. However, the Securities will be treated as equity for U.S. federal income tax purposes. Accordingly, Distributions paid on the Securities, including any Korean tax withheld and additional amounts paid in respect thereof, will be treated as distributions on our stock and as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles, a U.S. holder should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes.

Subject to the discussion below under "– Passive Foreign Investment Company," dividends received by an individual or other non-corporate U.S. holder generally will be subject to taxation at the maximum rate applicable to long-term capital gains if the dividends are "qualified dividends" and the U.S. holder satisfies certain holding period and other requirements. Dividends paid on the Securities will be treated as qualified dividends if:

- the Securities are readily tradable on an established securities market in the United States or we are eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and

- we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a PFIC.

The U.S. Treasury has determined that the Treaty meets the requirements for reduced rates of taxation, and we believes that we are eligible for the benefits of the Treaty. As described under "– Passive Foreign Investment Company," we believe that we should not be treated as a PFIC in 2016 and should not be treated as a PFIC in the current taxable year or in the foreseeable future. Assuming that those conclusions are correct, dividends received or accrued on the Securities will be eligible to be treated as qualified dividends. Securityholders should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Payments received by a U.S. holder that are treated as dividends generally will be treated as "passive category" income from sources outside the United States for purposes of determining a U.S. holder's U.S. foreign tax credit limitation and will not be eligible for the dividends-received deduction generally allowed to corporate U.S. holders. Subject to applicable limitations, some of which vary depending on a U.S. holder's circumstances, any Korean income taxes withheld from dividends on the Securities generally would be creditable against a U.S. holder's federal income tax liability. Instead of claiming a credit, a U.S. holder may elect to deduct Korean income taxes in computing the holder's taxable income, subject to generally applicable limitations. An election to deduct foreign income taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and U.S. possessions. The rules governing foreign tax credits are complex. If U.S. holders become subject to Korean income taxes, they should consult their tax advisors regarding the creditability of foreign taxes in their particular circumstances.

Sale, Exchange or Redemption of the Securities

Subject to the discussion below under "– Passive Foreign Investment Company," a U.S. holder will generally recognize capital gain or loss upon the sale, exchange, redemption or other taxable disposition of Securities in an amount equal to the difference between the amount realized on the disposition and the holder's adjusted tax basis in the Securities. A U.S. holder's tax basis in a Security generally will be the price the holder paid for the Security. Long-term capital gains of non-corporate taxpayers are generally taxed at a lower maximum marginal tax rate than the maximum marginal tax rate applicable to ordinary income. Any capital gain or loss will be long term if the Securities have been held for more than one year. The deductibility of capital losses is subject to limitations. Any gain or loss recognized generally will be treated as U.S. source gain or loss.

Substitution and Modification of the Securities

The terms of the Securities provide that, in certain circumstances, we may substitute the Securities or modify the terms of the Securities. A substitution or modification of this kind might be treated for U.S. federal income tax purposes as giving rise to a deemed disposition of the Securities by a U.S. holder in exchange for the new substituted or modified Securities. As a result of this deemed disposition, a U.S. holder could be required to recognize capital gain or loss for U.S. federal income tax purposes.

Passive Foreign Investment Company

We will be classified as a PFIC in any taxable year in which, after taking into account our gross income and assets (and the income and assets of any subsidiaries pursuant to applicable "look-through rules") either (i) 75% or more of our gross income consists of certain types of "passive income" or (ii) 50% or more of the average quarterly value of our assets is attributable to "passive assets" (i.e., assets that produce or are held for the production of passive income). For this purpose, passive income generally includes dividends, interest, royalties and rents. The PFIC rules specifically exclude from the definition of "passive income" any income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business" and which would be subject to taxation as an insurance company for U.S. federal income tax purposes if it were a U.S. corporation. This exception is intended to ensure that income derived in the active conduct of an insurance business by a bona fide insurance company is not treated as passive income. Thus, to the extent that income is attributable to financial reserves in excess of the reasonable needs of the insurance business, it may be treated as passive income. A similar exception exists to exclude from the definition of passive income certain "securities income earned by an active dealer or active broker," which are generally licensed securities dealers or securities brokers that engage in securities activities. These securities activities include effecting the purchase and sale of stock, debt instruments and derivatives, effecting transactions in securities for customers as a broker, providing investment banking services and similar financial and investment services.

If we own at least 25% (by value) of the stock of another corporation, for purposes of determining whether we are a PFIC, we will be treated as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income. Accordingly, in determining whether we should be treated as a PFIC, we are treated as owning a proportionate share of the assets and income of Kyobo Securities.

Based on our audited consolidated financial statements for the year ended December 31, 2016, and taking into account current expectations regarding our income, assets and activities, we believe that we were in 2016, and anticipate that we will continue to be, predominantly engaged in an insurance business. As a result, our income derived and assets held in the active conduct of our insurance business should not be passive income and passive assets. We also believe that the customer activities of Kyobo Securities qualify for the exception for the characterization of certain securities income, and as a result a portion of Kyobo Securities' income and assets should be treated as active income and active assets. We believe that more than the applicable threshold amount of our income and assets should be treated as active, and consequently we do not expect to be classified as a PFIC for 2016 or the current taxable year, or the foreseeable future. However, PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets and on the nature of our insurance and other activities, which may change. Moreover, there is little guidance on the circumstances under which a non-U.S. company will be treated as predominantly engaged in an insurance business for purposes of determining PFIC status or the circumstances under which income or assets of a non-U.S. insurance company will be treated as active, and it is therefore possible that the U.S. Internal Revenue Service ("IRS") would disagree with the determinations made by us as to how our business activities, income and assets should be classified. Accordingly, there is no assurance that we will not become a PFIC or that the IRS will not take a position contrary to that described above and assert that we are a PFIC.

If we become a PFIC in any year during which a U.S. holder owns the Securities, the U.S. holder generally will be subject to special rules (regardless of whether we continue to be a PFIC) with respect to its receipt of (i) any "excess Distribution" (generally, any Distribution on the Securities to the extent that it is greater than 125% of the average annual Distributions paid to the U.S. holder in the three preceding taxable years or, if shorter, the U.S. holder's holding period for the Securities) and (ii) any gain realized on the sale or other disposition, including a pledge, of the Securities.

Under these rules (a) the excess Distribution or gain will be allocated ratably over the U.S. holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year. If we become a PFIC, a U.S. holder generally will be subject to similar rules with respect to distributions to us by, and dispositions by us of equity of, any of our direct or indirect subsidiaries that are also PFICs.

Should we be classified as a PFIC, a U.S. holder should consult its tax adviser regarding the possibility of avoiding the interest charge described above by making a mark-to-market election with respect to the Securities. The election is available only if the Securities are considered "marketable stock" within the meaning of the Code, and there can be no assurances that being listed on the SGX-ST will be sufficient to meet this requirement.

Subject to certain exceptions, a U.S. holder is required to file an annual information return, currently on Form 8621, with respect to each PFIC in which it owns an interest directly or, in some cases, indirectly (including through certain pass-through entities), and the statute of limitations for collections may be suspended if it does not file the form. If we are a PFIC and own an interest in another PFIC, Securityholders would be treated as owning a proportionate amount (by value) of the stock of the other PFIC. However, we do not expect to provide investors in the Securities with the information necessary to comply with reporting obligations with respect to the other PFIC. U.S. holders should consult their own tax advisers regarding the PFIC reporting requirements.

Specified Foreign Financial Assets

Certain U.S. holders that own "specified foreign financial assets" with an aggregate value in excess of USD 50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Securities) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Securities, including the application of the rules to their particular circumstances.

Information Reporting and Backup Withholding

Information returns may need to be filed with the IRS with respect to payments made to certain U.S. holders. In addition, certain U.S. holders may be subject to backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers and certify that they are not subject to backup withholding or otherwise establish an exemption from backup withholding. Persons holding Securities who are not U.S. holders may be required to comply with applicable certification procedures to establish that they are not U.S. holders in order to avoid the application of the information reporting requirements and backup withholding tax. Any amounts withheld under the backup withholding rules will be allowed as a credit against a U.S. holder’s U.S. federal income tax liability, if any, or as a refund, provided the required information is timely furnished to the IRS.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated as of July 17, 2017 (the "Purchase Agreement") by and among us and Citigroup Global Markets Inc., J.P. Morgan Securities plc, Nomura International plc, UBS AG, Hong Kong Branch and Kyobo Securities Co., Ltd. (collectively, the "Initial Purchasers"), the Initial Purchasers have agreed to purchase from us, and we have agreed to sell to the Initial Purchasers, the aggregate principal amount of the Securities indicated in the following table:

Initial Purchasers	Principal Amount
Citigroup Global Markets Inc..	US$125,000,000
J.P. Morgan Securities plc	125,000,000
Nomura International plc	125,000,000
UBS AG, Hong Kong Branch	125,000,000
Kyobo Securities Co., Ltd. (1)	–
Total	US$500,000,000

(1) Kyobo Securities Co., Ltd. is our consolidated subsidiary.

The Purchase Agreement provides that the obligation of the Initial Purchasers to take and pay for the Securities is subject to the approval of certain legal matters by its counsel and certain other conditions. The Initial Purchasers have agreed to take and pay for all of the Securities if any are taken. The Initial Purchasers propose to offer the Securities initially at the price indicated on the cover page of this offering circular. After the offering, the offering price and other selling terms may be varied from time to time by the Initial Purchasers. The Initial Purchasers may offer and sell the Securities through certain of its affiliates and may provide to such affiliates an opportunity to purchase some of the Securities in the initial offering.

The Securities are a new issue of securities with no established trading market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Securities on the SGX-ST. We have been advised that the Initial Purchasers presently intend to make a market in the Securities, as permitted by applicable laws and regulations. The Initial Purchasers are not obligated, however, to make a market in the Securities, and any such market-making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchasers. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Securities.

The Initial Purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Securities in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker or dealer when the Securities originally sold by that broker or dealer are purchased in a stabilizing or covering transaction to cover short positions.

The Initial Purchasers and certain of their respective affiliates have in the past and may in the future have performed certain investment banking, commercial/corporate banking and advisory services for us and/or our affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform banking and advisory services for us and/or our affiliates in the ordinary course of business. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers, which may include transactions relating to our obligations under the Securities.

We have agreed to provide to the Initial Purchasers certain customary fees or discounts for their services in connection with the offering of the Securities and to reimburse the Initial Purchasers for certain out-of-pocket expenses.

Persons who purchase Securities from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this offering circular.

The Purchase Agreement provides that we will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any non-Won denominated debt securities outside Korea of our company or our subsidiaries during the period from the date of the Purchase Agreement through and including the date 90 days after the date of the Purchase Agreement, without the prior written consent of the Initial Purchasers.

The Initial Purchasers or certain of their respective affiliates may purchase the Securities and be allocated Securities for asset management and/or proprietary purposes and not with a view to distribution.

The Initial Purchasers or their respective affiliates may purchase the Securities and/or other securities of our company for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Securities and/or other securities of our company or our subsidiaries or associates at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this offering circular relates (notwithstanding that such selected counterparties may also be purchasers of the Securities).

We expect that delivery of the Securities will be made against payment therefor on or about the closing date specified on the cover page of this offering circular, which will be on or about the fifth business day following the pricing date of the Securities (this settlement cycle is referred to as "T+5"). Under Rule 15c6-l of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Securities on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Securities initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Securities who wish to trade the Securities on the date of pricing or succeeding business day should consult their own legal advisor.

Selling Restrictions

United States of America

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold by the Initial Purchasers only (1) in the United States to QIBs pursuant to Rule 144A and (2) outside the United States in reliance upon Regulation S.

United Kingdom

Each Initial Purchaser represents, warrants and undertakes to us and each other Initial Purchaser that:

(a) Financial promotion: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to us; and

(b) General compliance: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Initial Purchaser has represented and agreed that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of any document, any Securities other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Initial Purchaser 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 Initial Purchaser has represented, warranted and agreed that it has not offered or sold the Securities or caused the Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell the Securities or cause the Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

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

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

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Korea

Each Initial Purchaser severally but not jointly has represented and agreed that the Securities have not been and will 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 defined in the Foreign Exchange Transactions Act of Korea and the rules and regulations promulgated thereunder), or to any other person for reoffering, resale or re-delivery, directly or indirectly, in Korea or to, or for the account or benefit of, any resident of Korea, except as otherwise permitted by applicable Korean laws and regulations.

Each Initial Purchaser severally but not jointly has undertaken to ensure that any securities dealer to which it sells Securities confirms that it is purchasing such Securities as principal and agrees with such Initial Purchaser that it will comply with the restrictions described above.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Securities offered pursuant to this offering circular.

Korea

A registration statement for the offering and sale of the Securities has not been filed under the FSCMA. Each purchaser of the Securities hereunder will be deemed to have represented and agreed as follows:

1. the Securities have not been registered with the Financial Services Commission of Korea under the FSCMA. Accordingly, the Securities have not been and will not be offered, delivered, or sold directly or indirectly in Korea or to any resident of Korea (as defined in the Foreign Exchange Transaction Law of Korea and the regulations thereunder) or to others for re-offering or resale directly or indirectly in Korea or to any resident of Korea except as otherwise permitted under applicable Korean laws and regulations. In addition, until the expiration of one year after the issuance of the Securities, the Securities may not be transferred to any resident of Korea who is not a qualified professional investor as defined in Article 2-2, Paragraph 2, Item 4 of the Securities Issuance and Disclosure Regulations promulgated by the Financial Services Commission.

2. it understands that the Securities will, unless otherwise agreed by us, bear a legend substantially to the following effect:

   THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE FINANCIAL SERVICES COMMISSION OF KOREA UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA (THE “FSCMA”). ACCORDINGLY, THE SECURITIES HAVE NOT BEEN AND WILL NOT BE OFFERED, DELIVERED OR SOLD, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTION LAW AND THE REGULATIONS THEREUNDER), OR TO OTHERS FOR RE-OFFERING OR RESALE DIRECTLY OR INDIRECTLY IN KOREA OR TO ANY RESIDENT OF KOREA, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, UNTIL THE EXPIRATION OF ONE YEAR AFTER THE ISSUANCE OF THE SECURITIES, THE SECURITIES WILL NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA (AS DEFINED IN THE FOREIGN EXCHANGE TRANSACTION LAW OF KOREA AND THE REGULATIONS THEREUNDER) OTHER THAN TO (I) QUALIFIED PROFESSIONAL INVESTORS (AS SUCH TERM IS DEFINED IN ARTICLE 2-2, PARAGRAPH 2, ITEM 4 OF THE SECURITIES ISSUANCE AND DISCLOSURE REGULATIONS PROMULGATED BY THE FINANCIAL SERVICES COMMISSION) IN THE SECONDARY MARKET AND (II) THE QUALIFIED PROFESSIONAL INVESTORS IN THE PRIMARY MARKET, IF THE AMOUNT ACQUIRED BY SUCH QUALIFIED PROFESSIONAL INVESTORS IN THE PRIMARY MARKET IS LIMITED TO 20% OR LESS OF THE AGGREGATE ISSUE AMOUNT; AND THE SECURITIES WILL BE REGISTERED WITH THE KOFIA AS “QUALIFIED INSTITUTIONAL BUYER BONDS” IN ACCORDANCE WITH ARTICLE 2-2-2, PARAGRAPH 3, ITEM 4 OF THE SECURITIES ISSUANCE AND DISCLOSURE REGULATIONS PROMULGATED BY THE FINANCIAL SERVICES COMMISSION.

United States

The Securities have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or the securities laws of any other jurisdiction. The Securities may not be offered or sold within the United States, except in reliance on Rule 144A to QIBs. The Securities may also be offered and sold in offshore transactions in reliance on Regulation S.

Each purchaser of the Securities hereunder will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulations S under the Securities Act are used in this offering circular as defined in the Securities Act):

(1) it is purchasing the Securities for its own account or an account with respect to which it exercises sole investment discretion, and it and any such account (i) is a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (ii) is purchasing the Securities in an offshore transaction pursuant to Regulation S;

(2) it acknowledges that the Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

(3) it understands and agrees that if in the future it decides to sell, pledge or otherwise transfer any Securities or any beneficial interest in any Securities, such Securities may be offered, resold, pledged or transferred only (A)(i) to us, (ii) to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) or (v) pursuant to another exemption from the Securities Act, provided that, as a condition to the registration of the transfer thereof, the Registrar or we may require the delivery of any documents, including an opinion of counsel that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption, or (B) pursuant to an effective registration statement under the Securities Act, and, in each of such cases in accordance with any applicable securities laws of any state of the United States;

(4) it agrees to, and each subsequent holder is required to, notify any purchaser of the Securities from it of the resale restrictions referred to in clause (3)(A) above, if then applicable;

(5) it understands and agrees that Securities initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Certificates and that Securities initially offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Certificates;

(6) it understands that the Rule 144A Global Certificate(s) will, until the expiration of the applicable holding period with respect to the Securities set forth in Rule 144 of the Securities Act, unless otherwise agreed by us, bear a legend substantially to the following effect:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF KYOBO LIFE INSURANCE CO., LTD. (THE "ISSUER") THAT PRIOR TO THE DATE THAT IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE

LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY, THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(i) TO ISSUER, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (iii) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (iv) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (v) PURSUANT TO ANOTHER EXEMPTION FROM THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE ISSUER OR THE REGISTRAR MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION, OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND, IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER AGREES TO, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE, IF THEN APPLICABLE."

(7) it understands that, unless otherwise agreed by us, the Regulation S Global Certificate(s) will bear a legend substantially to the following effect:

"THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT."

(8) it acknowledges that prior to any proposed transfer of any Securities in certificated form or of beneficial interests in the Global Certificates (other than pursuant to an effective registration statement), the holder of the Securities or the holder of beneficial interests in the Global Certificates, as the case may be, may be required to provide certificates and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Securities and the Agency Agreement; and

(9) it acknowledges that we, the Initial Purchasers, the Fiscal Agent and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of the Securities is no longer accurate, it shall promptly notify us; and if it is acquiring any Securities as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreement on behalf of each such account.

Each purchaser and subsequent transferee acknowledges and agrees that they will be deemed by such purchase or holding of the Securities (or any beneficial interest therein) that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Securities or any beneficial interest therein constitutes assets of any employee benefit plan subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), plan, individual retirement account or other arrangement subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code") or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, "Similar Laws") or any entity whose underlying assets are considered to include "plan assets" of any such employee benefit plan, plan, account or arrangement or (ii) the purchase and holding of the Securities or any beneficial interest therein by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Laws.

LEGAL MATTERS

Certain legal matters relating to the Offering will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, our special English counsel, and for the Initial Purchasers by Clifford Chance LLP, their special English counsel. Certain legal matters relating to the Offering will be passed upon for us and the Initial Purchasers by Yulchon LLC, Korean counsel. Cleary Gottlieb Steen & Hamilton LLP and Clifford Chance LLP may rely as to all matters of Korean law on the opinion of Yulchon LLC. Yulchon LLC may rely as to all matters of English law on the opinion of Cleary Gottlieb Steen & Hamilton LLP and Clifford Chance LLP.

INDEPENDENT AUDITORS

Our annual consolidated financial statements as of and for the years ended December 31, 2014, 2015 and 2016 included in this offering circular have been audited by Ernst & Young Han Young, independent auditors, as stated in its audit report appearing herein. Our unaudited condensed consolidated interim financial statements as of and for the three months ended March 31, 2016 included in this offering circular have been reviewed by Ernst & Young Han Young, independent auditors. With respect to our unaudited condensed consolidated and separate interim financial statements as of and for the three months ended March 31, 2017 included herein, KPMG Samjong Accounting Corp., independent auditors, have reported that they applied limited procedures in accordance with professional standards for review of such information. However, their separate reports included herein state that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their separate reports on such information should be restricted in light of the limited nature of the review procedures applied.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with sales of the Securities, we will be required to furnish, upon request of a holder of Securities, to such holder of Securities and any prospective investor designated by such holder of Securities, the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request we are a reporting company under Section 13 or Section 15(d) of the Exchange Act, or included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act (and therefore are required to publish on our website, in English, certain information pursuant to Rule 12g3-2(b) under the Exchange Act). Any such request should be directed to Kyobo Life Insurance Co., Ltd., Attention: Hyun S. Kang (telephone: +82-2-721-3031, fax: +82-721-3329).

You should rely only upon the information provided in this offering circular. We have not authorized anyone to provide you with different information. You should not assume that the information in this offering circular is accurate as of any date other than the date of this offering circular.

ENFORCEMENT OF CIVIL LIABILITIES

We are a corporation with limited liability organized under the laws of Korea. Most of our directors, executive officers and certain other persons named in this offering circular are non-U.S. residents, and all or a significant portion of the assets of our directors, executive officers and certain other persons named in this offering circular and most of our assets are located or registered outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or against us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. It is uncertain whether liabilities predicated solely on U.S. federal securities laws are enforceable in original actions or in actions for enforcement of judgment in Korean courts.

INDEX TO FINANCIAL STATEMENTS

Annual Consolidated Financial Statements of the Issuer

Unaudited Condensed Consolidated Interim Financial Statements of the Issuer

Unaudited Condensed Separate Interim Financial Statements of the Issuer

Independent Auditors' Report

The Shareholders and Board of Directors
Kyobo Life Insurance Co., Ltd. and its subsidiaries

We have audited the accompanying consolidated financial statements of Kyobo Life Insurance Co., Ltd. (the "Company") 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. 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 the auditors' 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, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016 and 2015, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Ernst & Young Han Young

March 2, 2017

This audit report is effective as at March 2, 2017, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2016 and 2015

(in Korean won)

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and due from banks	5,13,14,47	₩ 1,377,440,371,422	₩ 1,728,663,426,150
Financial assets designated at fair value through profit or loss	6,13,14,47	335,927,813,961	346,938,876,614
Trading assets	7,13,14,47	3,950,518,105,913	4,086,831,205,281
Derivative assets	13,14,31	241,777,089,821	190,887,299,670
Available-for-sale financial assets	8,13,14,47	21,137,969,354,728	22,682,618,754,443
Held-to-maturity financial assets	9,13,14,47	27,187,549,137,649	22,860,268,288,451
Loans	10,13,14,47,52	18,463,417,988,115	16,820,111,283,289
Other receivables	11,13,14,47,52	1,695,931,680,281	1,646,404,865,409
Investments in associates	12	90,287,153,585	106,440,717,230
Investment property	15	1,135,855,058,326	1,168,606,033,562
Property and equipment	16	1,345,831,098,712	1,349,693,425,200
Intangible assets	17	52,460,861,858	62,355,247,246
Deferred acquisition costs	18	1,786,875,730,346	1,959,213,667,705
Current tax assets	49	57,651,877,788	12,864,429,352
Deferred tax assets	49	5,061,871,053	6,518,697,491
Other assets	19, 35	146,305,222,824	109,267,358,141
Separate account assets	32	17,673,470,884,070	16,870,679,330,412
Total assets		**₩ 96,684,331,300,452**	**₩ 92,008,362,905,646**
Liabilities			
Liability under insurance contracts	21,23,51	₩ 63,667,528,908,681	₩ 59,651,658,037,605
Policyholders' equity adjustment	22	463,704,818,833	567,158,693,114
Financial liabilities designated at fair value through profit or loss	13,14,24	1,503,863,841,124	1,612,754,740,483
Trading liabilities	13,14,25	427,848,464,145	210,660,099,155
Derivative liabilities	13,14,31	1,117,703,455,596	779,289,386,040
Borrowings	13,14,26	1,451,074,947,637	2,094,276,343,633
Other financial liabilities	13,14,27,47,52	1,412,400,835,925	1,473,273,077,774
Provisions	28,51	18,869,563,698	26,940,723,306
Defined benefit obligation	29	25,930,042,303	62,021,482,757
Current tax liabilities	49	1,935,679,959	56,118,729,167
Deferred tax liabilities	49	350,447,622,011	356,348,409,020
Other liabilities	30	251,973,802,757	242,987,496,416
Separate account liabilities	32,52	18,128,508,889,402	17,351,466,656,151
Total liabilities		**88,821,790,872,071**	**84,484,953,874,621**
Equity			
Capital stock	33	102,500,000,000	102,500,000,000
Capital surplus	33	435,744,066,403	436,621,782,024
Capital adjustments	33	(16,388,490,879)	(20,049,571,187)
Accumulated other comprehensive income	33	1,014,849,636,402	1,115,198,976,234
Retained earnings	33	5,961,614,120,347	5,551,911,193,668
Equity attributable to owners of the Controlling Company		7,498,319,332,273	7,186,182,380,739
Non-controlling interests	33	364,221,096,108	337,226,650,286
Total equity		**7,862,540,428,381**	**7,523,409,031,025**
Total equity and liabilities		**₩ 96,684,331,300,452**	**₩ 92,008,362,905,646**

The accompanying notes are an integral part of the consolidated financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2016 and 2015

(in Korean won)

	Notes	December 31, 2016	December 31, 2015
Operating revenues	52		
Premium income	34	₩ 7,900,745,537,074	₩ 7,835,627,455,027
Reinsurance income	35	93,420,807,939	86,363,085,289
Interest income	13,36	2,629,765,015,950	2,650,042,346,033
Gain on valuation and disposal of financial instruments	13,37	911,428,790,107	909,140,004,425
Gain on foreign currency transaction	13,47	636,888,805,109	560,932,636,806
Fees and commission income	38	218,265,702,197	234,414,930,228
Dividend income	13,39	300,522,551,706	265,920,102,119
Rental income	15	95,816,635,123	97,376,976,508
Separate account commissions earned		821,470,835,992	799,392,663,609
Separate account income	32	123,964,430,653	128,001,090,803
Other operating income	40	710,046,893,411	688,001,574,018
		14,442,336,005,261	14,255,212,864,865
Operating expenses	52		
Provision for liabilities under insurance contracts	21	3,895,523,424,314	3,862,922,692,012
Insurance claims paid	41	5,222,172,944,582	4,994,182,093,406
Reinsurance premium expenses	35	96,261,827,290	91,430,713,682
Insurance operating expenses	42,50	864,400,421,004	829,741,103,842
Amortization of deferred acquisition costs	18	843,645,821,963	866,867,904,385
Investment administrative expenses	43	107,266,378,486	104,808,837,467
Interest expenses	13,44	151,523,383,344	129,978,130,130
Loss on valuation and disposal of financial instruments	13,45	1,287,955,654,514	1,254,943,871,588
Loss on foreign currency transaction	13,47	158,385,080,183	94,439,700,133
Separate account commissions paid		26,551,869,453	25,653,675,206
Separate account expenses	32	123,964,430,653	128,001,090,803
Other operating expenses	46	977,763,992,824	957,068,480,256
		13,755,415,228,610	13,340,038,292,910
Operating income		**686,920,776,651**	**915,174,571,955**
Non-operating income	48	**52,512,867,568**	**23,263,819,205**
Non-operating expenses	48	**27,231,927,936**	**60,967,796,982**
Net income before income tax expenses		**712,201,716,283**	**877,470,594,178**
Income tax expenses	49	**168,932,637,104**	**233,356,684,993**
Net income for the current year		**₩ 543,269,079,179**	**₩ 644,113,909,185**

(Continued)

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2016 and 2015

(in Korean won)
(Continued)

	Notes	December 31, 2016	December 31, 2015
Other comprehensive income reclassified subsequently to profit or loss:			
Gain (loss) on valuation of available-for-sale financial assets	33	₩ (146,792,742,411)	₩ 813,066,664
Gain (loss) on valuation of held-to-maturity financial assets	33	14,411,663,354	(4,895,896,231)
Loss on valuation of investments in associates	33	(1,201,648,006)	(50,233,542)
Gain on valuation of derivative instruments	33	27,799,797,781	9,354,950,128
Other comprehensive loss in separate accounts	33	(15,066,943,176)	(4,056,232,333)
Foreign currency translation adjustments for foreign operations	33	1,383,776,270	(330,543,946)
Items that will not be reclassified subsequently to profit or loss:			
Gain (loss) on revaluation of property and equipment	33	(717,329,778)	2,533,809,331
Remeasurement loss related to defined benefit liablities	33	21,492,101,311	(2,846,568,040)
		(98,691,324,655)	**522,352,031**
Total comprehensive income for the year, net of tax		**₩ 444,577,754,524**	**₩ 644,636,261,216**
Profit for the year attributable to:			
Controlling interests		₩ 514,494,121,070	₩ 607,850,057,703
Non-controlling interests		28,774,958,109	36,263,851,482
		₩ 543,269,079,179	**₩ 644,113,909,185**
Total comprehensive income attributable to:			
Controlling interests		₩ 414,737,931,238	₩ 610,365,066,606
Non-controlling interests		29,839,823,286	34,271,194,610
		₩ 444,577,754,524	**₩ 644,636,261,216**
Earnings per share for controlling interests			
Basic and diluted earnings per share	53	₩ 25,097	₩ 29,651

The accompanying notes are an integral part of the consolidated financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2016 and 2015

(in Korean won)

	Capital stock	Capital surplus	Capital adjustments	comprehensive income	Retained earnings	Controlling interest	Non-controlling interest	Total
Balance as at January 1, 2015	**₩102,500,000,000**	**₩437,955,714,615**	**₩(19,845,209,002)**	₩1,116,108,739,331	**₩5,016,837,677,297**	**₩6,653,556,922,241**	₩303,566,626,594	**₩6,957,123,548,835**
Comprehensive income	**-**	**-**	**-**	**2,515,008,903**	**607,850,057,703**	**610,365,066,606**	**34,271,194,610**	**644,636,261,216**
Profit for the year	-	-	-	-	607,850,057,703	607,850,057,703	36,263,851,482	644,113,909,185
Other comprehensive income (loss)	-	-	-	2,515,008,903	-	2,515,008,903	(1,992,656,872)	522,352,031
Gain (loss) on valuation of available-for-sale financial assets	-	-	-	1,824,150,243	-	1,824,150,243	(1,011,083,579)	813,066,664
Loss on valuation of held-to-maturity financial assets	-	-	-	(4,895,896,231)	-	(4,895,896,231)	-	(4,895,896,231)
Gain on valuation of investments in associates	-	-	-	(56,992,945)	-	(56,992,945)	6,759,403	(50,233,542)
Gain on valuation of derivative instruments	-	-	-	9,354,950,128	-	9,354,950,128	-	9,354,950,128
Other comprehensive loss in separate accounts	-	-	-	(4,056,232,333)	-	(4,056,232,333)	-	(4,056,232,333)
Foreign currency translation adjustments for foreign operations	-	-	-	(15,697,831)	-	(15,697,831)	(314,846,115)	(330,543,946)
Gain (loss) on revaluation of property and equipment	-	-	-	43,623,318,661	-	43,623,318,661	(41,089,509,330)	2,533,809,331
Remeasurement loss related to defined benefit obligation	-	-	-	(43,262,590,789)	-	(43,262,590,789)	40,416,022,749	(2,846,568,040)
Transactions with owners:	**-**	**(1,333,932,591)**	**(204,362,185)**	**-**	**(76,887,053,332)**	**(78,425,348,108)**	**(611,170,918)**	**(79,036,519,026)**
Annual dividends	-	-	-	-	(76,875,000,000)	(76,875,000,000)	-	(76,875,000,000)
Change in equities of subsidiaries	-	(1,333,932,591)	(204,362,185)	-	(12,053,332)	(1,550,348,108)	(611,170,918)	(2,161,519,026)
Others:	**-**	**-**	**-**	**(3,424,772,000)**	**4,110,512,000**	**685,740,000**	**-**	**685,740,000**
Balance as at December 31, 2015	**₩102,500,000,000**	**₩436,621,782,024**	**₩(20,049,571,187)**	**₩1,115,198,976,234**	**₩5,551,911,193,668**	**₩7,186,182,380,739**	**₩337,226,650,286**	**₩7,523,409,031,025**

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2016 and 2015

(in Korean won)

	Capital stock	Capital surplus	Capital adjustments	comprehensive income	Retained earnings	Controlling interest	Non-controlling interest	Total
Balance as at January 1, 2016	**₩102,500,000,000**	**₩436,621,782,024**	**₩(20,049,571,187)**	**₩1,115,198,976,234**	**₩5,551,911,193,668**	**₩7,186,182,380,739**	**₩337,226,650,286**	**₩7,523,409,031,025**
Comprehensive income	**-**	**-**	**-**	**(99,756,189,832)**	**514,494,121,070**	**414,737,931,238**	**29,839,823,286**	**444,577,754,524**
Profit for the year	-	-	-	-	514,494,121,070	514,494,121,070	28,774,958,109	543,269,079,179
Other comprehensive income	-	-	-	(99,756,189,832)	-	(99,756,189,832)	1,064,865,177	(98,691,324,655)
Gain on valuation of available-for-sale financial assets	-	-	-	(147,145,579,397)	-	(147,145,579,397)	352,836,986	(146,792,742,411)
Loss on valuation of held-to-maturity financial assets	-	-	-	14,411,663,354	-	14,411,663,354	-	14,411,663,354
Loss on valuation of investments in associates	-	-	-	(1,194,888,603)	-	(1,194,888,603)	(6,759,403)	(1,201,648,006)
Gain on valuation of derivative instruments	-	-	-	27,799,797,781	-	27,799,797,781	-	27,799,797,781
Other comprehensive income in separate accounts	-	-	-	(15,066,943,176)	-	(15,066,943,176)	-	(15,066,943,176)
Foreign currency translation adjustments for foreign operations	-	-	-	616,548,042	-	616,548,042	767,228,228	1,383,776,270
Loss on revaluation of property and equipment	-	-	-	(717,329,779)	-	(717,329,779)	1	(717,329,778)
Remeasurement loss related to Defined benefit obligation	-	-	-	21,540,541,946	-	21,540,541,946	(48,440,635)	21,492,101,311
Transactions with owners:	**-**	**-**	**-**	**-**	**(102,500,000,000)**	**(102,500,000,000)**	**(2,845,377,464)**	**(105,345,377,464)**
Annual dividends	-	-	-	-	(102,500,000,000)	(102,500,000,000)	-	(102,500,000,000)
Capital changes of subsidiaries	-	-	-	-	-	-	(2,845,377,464)	(2,845,377,464)
Others:	**-**	**(877,715,621)**	**3,661,080,308**	**(593,150,000)**	**(2,291,194,391)**	**(100,979,704)**	**-**	**(100,979,704)**
Balance as at December 31, 2016	**₩102,500,000,000**	**₩435,744,066,403**	**₩(16,388,490,879)**	**₩1,014,849,636,402**	**₩5,961,614,120,347**	**₩7,498,319,332,273**	**₩364,221,096,108**	**₩7,862,540,428,381**

The accompanying notes are an integral part of the consolidated financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015

(in Korean won)

	For the years ended December 31,	
	2016	**2015**
Operating activities:		
Net income before income tax expenses	₩ 712,201,716,283	₩ 877,470,594,178
Adjustments for:		
Interest income	(2,629,765,015,950)	(2,650,042,346,033)
Interest expenses	151,523,383,344	129,978,130,130
Dividend income	(300,522,551,706)	(265,920,102,119)
	(2,778,764,184,312)	(2,785,984,318,022)
Other adjustments to reconcile net income to net cash provided by operating activities:		
Loss on valuation of trading assets, net	22,241,120,000	12,377,421,624
Loss (gain) on valuation of trading liabilities, net	(5,039,835,310)	4,535,758,866
Loss (gain) on valuation of financial assets designated at FVTPL, net	(7,537,456,221)	4,338,604,452
Gain on financial liabilities designated at FVTPL, net	(34,909,398,218)	(34,980,828,589)
Gain on disposal of available-for-sale financial assets, net	(124,481,794,876)	(190,371,907,541)
Impairment loss of available-for-sale financial assets	12,662,803,425	32,114,148,804
Gain on disposal of held-to-maturity financial assets, net	(2,900,476,306)	(603,938,947)
Provision for loan losses	14,350,513,691	21,259,693,839
Gain on foreign currency transaction, net	(476,694,484,292)	(471,539,902,130)
Loss on valuation of derivatives, net	522,005,732,161	394,037,928,362
Loss (gain) on disposal of derivatives, net	(44,925,930,768)	89,015,315,699
Gain on investments in associates, net	(34,843,769,423)	(13,935,901,129)
Amortization of deferred acquisition costs	843,645,821,963	866,867,904,385
Depreciation of investment property	11,303,000,248	11,493,695,395
Loss on sale of investment properties and equipment, net	197,597,254	5,156,517,964
Impairment loss of investment properties	23,493,465	5,277,947,904
Depreciation of property and equipment	37,373,984,479	35,801,023,335
Impairment loss of property and equipment	80,042,461	18,501,174,000
Loss on disposal of intangible assets, net	177,949,000	(32,466,000)
Amortization of intangible assets	17,687,208,933	19,145,451,232
Impairment loss on intangible assets	405,033,606	269,181,756
Loss on disposal of assets held-for-sale	6,108,941	542,822,406
Provision for insurance contract liabilities	4,012,463,791,392	3,904,933,435,130
Impairment loss of reinsurance assets	2,329,208,123	2,504,546,509
Reversal of reinsurance income	(2,771,363,793)	(1,950,729,547)
Severance benefits	41,187,418,450	40,007,630,300
(Reversal of) bad debt expenses on other assets	3,334,550,302	(122,623,867)
Other loss	(4,189,652,618)	(12,746,368,252)
	4,803,181,216,069	4,741,895,535,960

(Continued)

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015

(in Korean won)
(Continued)

	For the years ended December 31,	
	2016	**2015**
Changes in operating assets and liabilities:		
Due from banks	₩ (40,997,546,514)	₩ 38,052,783,561
Financial assets designated at FVTPL	5,430,034,174	(43,039,276,985)
Trading assets	136,295,157,425	433,002,462,044
Loans	(1,662,768,017,942)	(449,602,319,918)
Other receivables	(86,958,439,214)	(993,620,578,993)
Derivative assets	439,130,978,677	292,625,675,949
Deferred acquisition costs	(671,307,884,604)	(769,327,447,858)
Other assets	(37,294,344,338)	39,494,564,632
Separate account assets	(802,791,553,658)	(1,608,106,469,172)
Financial liabilities designated at FVTPL	(73,981,501,141)	(32,995,764,170)
Trading liabilities	222,228,200,300	(82,876,273,886)
Derivative liabilities	(630,159,687,611)	(584,189,102,311)
Other financial liabilities	(14,445,744,539)	(990,000,571,558)
Provisions	621,242,712	4,119,143,092
Defined benefit obligation	(53,843,774,928)	(47,214,217,705)
Other liabilities	10,912,058,050	(2,517,021,864)
Separate account liabilities	757,164,999,510	1,675,767,977,406
Gain (loss) on translation of foreign operations	616,548,042	(15,697,830)
	(2,502,149,275,599)	(3,120,442,135,566)
Income taxes paid	(229,769,801,761)	(217,502,233,661)
Interest received	2,528,279,623,017	3,277,040,704,635
Interest paid	(144,997,994,683)	(122,889,607,870)
Dividends received	301,708,215,912	265,148,784,161
Cash flows from operating activities	**2,689,689,514,926**	**2,914,737,323,815**
Investing activities:		
Acquisition of available-for-sale financial assets	(17,505,920,266,468)	(11,442,884,602,831)
Disposal of available-for-sale financial assets	18,263,047,183,215	11,001,979,681,179
Acquisition of held-to-maturity financial assets	(5,223,563,011,419)	(2,756,651,726,844)
Redemotion of held-to-maturity financial assets	2,057,661,024,131	891,948,419,403
Cash in flows from derivatives held for hedging	46,210,364,040	46,318,788,523
Cash out flows from derivatives held for hedging	(8,061,982,131)	(12,300,247,011)
Acquisition of investments in associates	(235,500,000)	(28,500,000)
Disposal of investments in associates	23,769,846,255	7,086,804,010
Acquisition of property, equipment and investment property	(36,768,734,298)	(71,820,344,599)
Disposal of property, equipment and investment property	19,161,518,160	1,805,003,038
Acquisition of intangible assets	(8,832,896,101)	(9,697,824,294)

(Continued)

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2016 and 2015

(in Korean won)
(Continued)

	For the years ended December 31,	
	2016	**2015**
Disposal of intangible assets	445,183,480	1,701,772,503
Disposal of assets held-for-sale	5,000,000,000	13,711,500,000
Increase in leasehold deposits	(19,952,989,771)	(13,696,964,922)
Decrease in leasehold deposits	21,914,070,720	26,652,670,307
Receipt of dividends from associates	27,014,322,070	5,230,738,208
Cash flows from investing activities	**(2,339,111,868,117)**	**(2,310,644,833,330)**
Financing activities:		
Increase (decrease) in non-controlling interest	(5,029,002,646)	(3,655,333,621)
Increase in rental deposits	3,148,647,697	10,000,219,485
Decrease in rental deposits	(1,335,199,110)	(4,948,968,874)
Dividends paid	(102,500,000,000)	(76,875,000,000)
Repayment for borrowings	(979,884,516,260)	(222,088,094,289)
Proceeds from borrowings	330,119,723,936	9,900,000,000
Disposal of subsidiaries' equity securities with no change in control	12,581,118,628	6,686,222,067
Cash flows from financing activities	**(742,899,227,755)**	**(280,980,955,232)**
Effect of exchange rate fluctuations on cash and cash equivalents held	**100,979,704**	**(289,025,450)**
Increase (decrease) in cash and cash equivalents	**(392,220,601,242)**	**322,822,509,803**
Beginning of the period <Note 5>	**1,058,396,896,925**	**735,574,387,122**
End of the period <Note 5>	**₩ 666,176,295,683**	**₩ 1,058,396,896,925**

The accompanying notes are an integral part of the consolidated financial statements.

1. Reporting entity

Kyobo Life Insurance Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

1-1) Controlling company

Kyobo Life Insurance Co., Ltd. (the "Controlling Company") was established on June 30, 1958, and primarily engages in the life insurance business as permitted by the Insurance Business Law of the Republic of Korea. The Controlling Company's head office is located at Jongno-ro 1, Jongno-gu, Seoul, Republic of Korea. As of December 31, 2016, the Controlling Company has 7 FP offices, 64 supporting offices and 539 branches in the Republic of Korea engaging in life insurance business and its related reinsurance contracts. The following table lists the number of currently available and discontinued insurance products as of December 31, 2016:

Type	Insurance products		
	Available	Discontinued	Total
Individual annuity	17	81	98
Pure endowment	3	26	29
Death	31	179	210
Endowment	2	39	41
Group insurance	18	23	41
	71	348	419

1-2) Shareholders

As of December 31, 2016, the Controlling Company's major shareholders and their respective shareholdings are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
Chang-Jae Shin	6,925,474	33.78
Tiger Holdings LP	2,035,000	9.93
Corsair Korea Investors LLC	2,007,766	9.79
Guardian Holdings Limited	1,855,250	9.05
The Export-Import bank of Korea	1,199,001	5.85
KLI Investors LLC	1,092,165	5.33
Hoenir Inc.	1,071,125	5.23
KLIC Holdings Limited	1,071,125	5.23
Apfin Investment Pte. Ltd.	922,500	4.50
In-Jae Shin	518,600	2.53
AXA	460,000	2.24
Kyung-Ae Shin	350,002	1.71
Young-Ae Shin	289,992	1.41
Triumph II Investments (Ireland) Limited	220,000	1.07
Meiji Yasuda Life Insurance Company	205,000	1.00
Others	277,000	1.35
	20,500,000	100.00

1. Reporting entity (cont'd)

1-3) Subsidiaries - entities

	Location	Reporting date	Ownership (%) December 31, 2016	Ownership (%) December 31, 2015	Industry
Kyobo Securities Co., Ltd.	Korea	31-Dec	51.6%	51.6%	Stock brokerage
Kyobo Book Center Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Retail of books and magazines
Kyobo Hottracks Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Retail of stationery
Kyobo Info. & Comm. Co., Ltd.	Korea	31-Dec	89.8%	89.8%	Software advisory and development
Kyobo Realco Inc.	Korea	31-Dec	100.0%	100.0%	Non-residential property managements
Jeil Safety Service Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Safety service
KCA Claim Adjustment Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Service related to insurance and pension
KCA Service	Korea	31-Dec	100.0%	-	Service Business
Kyobo Data Center Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Computers and office equipment leasing
Kyobo Life Planet Life Insurance Company	Korea	31-Dec	91.9%	90.5%	On-line life insurance
Kyobo Life Asset Management (America) Co., Ltd.	USA	31-Dec	100.0%	100.0%	Asset management
Kyobo Life Asset Management (Japan) Co., Ltd.	Japan	31-Dec	100.0%	-	Asset management
New high yield D2 open end B-1	Korea	31-Dec	100.0%	100.0%	Asset management
Consus BTL Private Special Asset Investment Trust1	Korea	31-Dec	57.2%	57.2%	Beneficiary certificates
Consus Hope BTL Private Special Asset Investment Trust 1	Korea	31-Dec	66.7%	66.7%	Beneficiary certificates
Consus New Energy Private Special Asset Investment Trust 2	Korea	31-Dec	68.8%	68.8%	Beneficiary certificates
KIAMCO SHIPPING Private Equity Special Asset Investment Trust KX-No.1	Korea	31-Dec	100.0%	100.0%	Beneficiary certificates
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	Korea	31-Dec	86.7%	86.7%	Beneficiary certificates
IGIS KORIF Private Equity REIT No.12	Korea	31-Dec	100.0%	100.0%	Beneficiary certificates
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	Channel Islands	31-Dec	100.0%	100.0%	Beneficiary certificates

1. Reporting entity (cont'd)

1-4) Changes in subsidiaries

Changes in subsidiaries for the nine-month period ended December 31, 2016 are as follows:

1) Newly acquired subsidiaries:

Subsidiary	Reason
Kyobo Life Asset Management (Japan) Co., Ltd.	Newly acquired
KCA Service	Newly acquired

2) Excluded subsidiaries:

There was no subsidiary excluded from the scope of consolidation for the year ended December 31, 2016.

1-5) Financial information of subsidiaries

1) Financial information of subsidiaries as of December 31, 2016 is as follows (Korean won in millions):

Company	Assets	Liabilities	Revenue	Net profit or loss	Total comprehensive income
Kyobo Securities Co., Ltd.	₩ 5,117,239	₩ 4,372,585	₩ 1,111,350	₩ 63,466	₩ 64,258
Kyobo Book Center Co., Ltd.	262,034	150,936	525,546	8,416	6,702
Kyobo Hottracks Co., Ltd.	41,266	29,323	4,187	3,135	2,653
Kyobo Info. & Comm. Co., Ltd.	19,259	9,323	35,797	429	330
Kyobo Realco Inc.	51,135	18,665	131,013	3,985	4,022
Jeil Safety Service Co., Ltd.	2,091	757	8,217	124	(51)
KCA Claim Adjustment Co., Ltd.	14,034	4,924	28,867	1,017	1,002
KCA Service	3,000	-	-	-	-
Kyobo Data Center Co., Ltd.	48,505	1,983	4,895	2,390	2,390
Kyobo Life Planet Life Insurance Company	85,471	38,194	28,175	(17,490)	(17,778)
Kyobo Life Asset Management (America) Co., Ltd.	4,249	195	954	270	295
Kyobo Life Asset Management (Japan) Co., Ltd.	1,029	14	127	(15)	(102)
New high yield D2 open end B-1	85	24	2	1	1
Consus BTL Private Special Asset Investment Trust1	47,349	20,267	1,827	878	878
Consus Hope BTL Private Special Asset Investment Trust 1	45,166	14,926	3,094	1,391	1,391
Consus New Energy Private Special Asset Investment Trust2	34,867	10,906	2,122	1,402	1,402
KIAMCO Shipping Private Equity Special Asset Investment Trust KX-No.1	17,140	5	856	834	834
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	43,855	4,863	11,250	4,600	4,600
IGIS KORIF Private Equity REIT No.12	139	137	543	340	340
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	60,023	-	1,731	(1,162)	(1,162)

1. Reporting entity (cont'd)

1-5) Financial information of subsidiaries (cont'd)

2) Financial information of subsidiaries as of December 31, 2015 was as follows (Korean won in millions):

Company	Assets	Liabilities	Revenue	Net profit or loss	Total comprehensive income
Kyobo Securities Co., Ltd.	₩ 5,532,576	₩ 4,846,983	₩ 1,033,242	₩ 76,822	₩ 73,447
Kyobo Book Center Co., Ltd.	265,998	161,451	523,465	12,458	10,033
Kyobo Hottracks Co., Ltd.	37,488	23,299	77,521	5,917	5,130
Kyobo Info. & Comm. Co., Ltd.	15,451	5,846	41,965	966	576
Kyobo Realco Inc.	42,610	13,662	118,199	3,345	2,077
Jeil Safety Service Co., Ltd.	2,177	727	7,912	116	67
KCA Claim Adjustment Co., Ltd.	11,969	3,860	27,280	437	1,219
Kyobo Data Center Co., Ltd.	46,776	1,924	4,514	2,134	2,134
Kyobo Life Planet Life Insurance Company	64,676	14,597	10,925	(21,189)	(21,335)
Kyobo Life Asset Management (America) Co., Ltd.	3,802	42	310	33	33
New high yield D2 open end B-1	88	25	2	1	1
Consus BTL Private Special Asset Investment Trust1	49,854	21,337	2,655	1,325	1,325
Consus Hope BTL Private Special Asset Investment Trust 1	47,772	15,790	3,487	1,473	1,473
Consus New Energy Private Special Asset Investment Trust2	48,326	15,164	3,561	2,233	2,233
KIAMCO Shipping Private Equity Special Asset Investment Trust KX-No.1	17,537	5	977	927	927
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	43,615	6,007	2,747	792	792
IGIS KORIF Private Equity REIT No.12	17,063	1,074	1,261	1,136	1,136
Lyxor GREAT- GWANGGAETO Multi-Strategy Fund PC	59,107	-	1,125	1,125	272

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The Group prepares statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of Stock Companies.* The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

2. Basis of preparation and significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings classified as property, plant and equipment, derivative financial instruments, available-for-sale (AFS) financial assets, contingent consideration and non-cash distribution liabilities that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest millions, except when otherwise indicated.

The Group's consolidated financial statements as of December 31, 2016 are scheduled to be approved by the Board of Directors on March 2, 2017.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received

2. Basis of preparation and significant accounting policies (cont'd)

2.2 Basis of consolidation (cont'd)

- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Significant accounting policies

2.3.1 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of comprehensive income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.1 Investment in associates and joint ventures (cont'd)

impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of profit of an associate and a joint venture' in the statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.3.2 Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.2 Fair value measurement (cont'd)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.3.3 Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the Group's functional currency.

(1) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.3 Foreign currencies (cont'd)

(2) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

2.3.4 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the current income when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

The estimated useful lives and depreciation methods of the Group's property and equipment are as follows

	Useful lives	Depreciation method
Buildings	50 years	Straight-line
Structures	50 years	Straight-line
Vehicles	5 years	Declining-balance
Equipment	5 years	Declining-balance
Estimated restoration assets	5 years	Declining-balance

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.5 Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Investment property is depreciated on a basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The estimated useful lives and depreciation methods of the Group's investment properties are as follows:

Description	Useful lives	Depreciation method
Buildings	50 years	Straight-line
Structures	50 years	Straight-line

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation.

2.3.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

	Useful lives
Software	5 years
Development costs	5 years
Other intangible assets	5 years
Membership	Indefinite

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.6 Intangible assets (cont'd)

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate that the technical feasibility of completing the intangible asset so that the asset will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset, the ability to measure reliably the expenditure during development and the ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

2.3.7 Inventories

Inventories are valued at the lower of cost and net realizable value.
Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in OCI, in respect of the purchases of raw materials.
Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.3.8 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.8 Impairment of non-financial assets (cont'd)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

1) Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2) Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.9 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

2.3.10 Financial instruments – initial recognition and subsequent measurement

(1) Financial assets

1) Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

For purposes of subsequent measurement financial assets are classified in four categories:

2) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (FVTPL) include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by KIFRS 1039. The Group has not designated any financial assets at FVTPL.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

4) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of comprehensive. The losses arising from impairment are recognized in the statement of comprehensive income as finance costs.

5) Available-for-sale (AFS) financial assets

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive income in finance costs. Interest earned while holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

6) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

(2) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, 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

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

2) Available-for-sale (AFS) financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income – is removed from OCI and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(3) Financial liabilities

1) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, derivative financial instruments.

Subsequent measurement of financial liabilities differs based on the classification of financial liabilities.

2) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1039. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income. Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in KIFRS 1039 are satisfied. The Group has not designated any financial liability as at FVTPL.

3) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

(4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.3.11 Derivative financial instruments and hedge accounting

(1) Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps to hedge its foreign currency risks, interest rate risks respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.11 Derivative financial instruments and hedge accounting (cont'd)

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

1) Fair value hedges

The change in the fair value of a hedging derivative is recognized in the statement of comprehensive income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of comprehensive income as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

2) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of comprehensive income as other operating expenses. Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.
When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

2.3.12 Non-current assets and disposal groups held for sale

The Group classifies non-current assets and disposal groups as held-for-sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. And assets and liabilities classified as held-for-sale or for distribution are presented separately as current items in the statement of financial position.
Assets and liabilities are not depreciated or amortized once classified as held-for-sale or as held for distribution.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.13 Employee benefits

The Group operates a defined benefit pension plan in Korea, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs or redundancy payments

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales', 'operating and administrative expenses' and 'asset management expenses' in consolidated statement of comprehensive income.

(1) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(2) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in profit and loss when incurred.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.13 Employee benefits (cont'd)

If the net amount that is calculated by subtracting the fair value of the plan assets from the present value of the defined benefit pension plans is an asset, the Group measures at lower of an excess contribution to the defined benefit pension plans or the upper limit recognized as an asset that is calculated by using the interest rate of the corporate bonds of a blue chip company at the end of an annual reporting period.

(3) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(4) Other benefits for the vested employees

Other benefits for the vested employees who have rendered services for a long-term period of time with regard to considerations for the employees who have rendered services for a long period of time, if the employees' benefits are not expected to be paid within 12 months after the end of an annual reporting period, the Group recognizes the net sum of service costs for long-term services and net interests on net defined benefit liabilities (assets) as a current profit or loss.

(5) Redundancy payments

The Group recognizes an expense for termination benefits when an employee accepts the offer or when a restriction on the Bank's ability to withdraw the offer takes effect.
If employees are laid off upon a request from the Group, the Group can give more retirement benefits in comparison to when the employees voluntarily leave the Group. With regard to the redundancy payment that is a difference between the amount that the Group pays to the employee who voluntarily leaves the Group and the amount that the Group pays to the employee who is dismissed by the Group, the Group recognizes the liability and the expense of the redundancy payment earlier of when the Group cannot withdraw a proposal for the redundancy payment or when it recognizes restructuring costs accompanied by the redundancy payment.

2.3.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.15 Deferred acquisition costs

Acquisition costs arising from long-term contracts, excluding any excess amount over expected acquisition costs, are deferred and amortized over the premium payment period or seven years, whichever is shorter. For cancellations, any unamortized portion is written off immediately.

The Group amortizes an amount that exceeds the difference between net level premium reserve and surrender value level premium reserve.

2.3.16 Classification of insurance contracts

The Group recognizes a contract as an insurance contract if under the contract one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The Group assesses representative contract's insurance risk of an insurance product considering the claims paid when the insured event occurs or does not occur. If a contract is exposed to financial risk without significant insurance risk, the contract is classified as an investment contract.

Financial risk is the risk of a possible future change in one or more specified interest rates, financial instrument prices, commodity prices, foreign exchange rates, index of prices or rates, credit rating or credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

The Group applies "KIFRS 1104 Insurance Contracts" for insurance contracts and investment contracts with discretionary participation features. Investment contracts with no discretionary participation features are accounted for in accordance with "KIFRS 1039 Financial Instruments: Recognition and Measurement".

A contract that was initially qualified as an insurance contract remains to be classified as insurance contract until all rights and obligations are extinguished or expired. However, the Group reclassifies an investment contract to an insurance contract if insurance risk becomes significant.

2.3.17 Insurance contracts liabilities

The Group provides various policy reserves in accordance with the Insurance Business Act, relevant regulations and the terms and conditions in insurance contracts as follows:

(1) Premium reserve

Premium reserve is a liability to prepare claims paid for the outstanding claims. Premium reserve is calculated by deducting discounted net premium from the discounted claims paid expected to be paid in the future period.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Insurance contracts liabilities (cont'd)

(2) Reserve for unearned premium

Reserve for unearned premium is made for the portion of insurance premiums received which do not pertain to the current period.

(3) Guarantee reserve

Guarantee reserve is recorded in order to guarantee insurance proceeds and other payments to be no less than a specified level considering the expected loss in the future.

(4) Reserve for outstanding claims

Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the date of statement of financial position but for which a fixed value cannot be determined, which includes the following:

- Estimated amount: The expenses to be incurred in the course of settlement of the insured event, such as lawsuit or arbitration (if partial amount is settled, the remainder is recognized.
- Reserve for ineffective contracts: Reserve for ineffective contracts due to default in premium payment (Partial amount of surrender value)

- Unpaid claims: The amount of claims, surrender value and dividend to be paid is determined but not paid yet
- IBNR (Incurred But Not Reported): Estimated amount using a reasonable statistical method considering the Group's experience rate

(5) Reserves for participating policyholder's dividends

Reserves for participating policyholder's dividends comprise reserve for guaranteed dividend, reserve for mortality dividend, reserve for interest dividend, reserve for expense dividend, reserve for long term duration and reserve for revaluation dividends.

The Group calculates each reserve for the participating policyholders' dividends by the methods described below:

- Reserve for guaranteed dividend:

A reserve to compensate for the difference between expected rate of interest and the average interest rate of time deposit for the reporting period. The Group records this reserve only for the contracts which were initiated before October 1, 1997.

- Reserve for mortality dividend:

A reserve to compensate for the difference between expected mortality rate and actual mortality rate. The Group has been recording this reserve only for the contracts which are or are expected to be effective for more than a year as of the reporting date, excluding nonparticipating policies, since 1983.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Insurance contracts liabilities (cont'd)

- Reserve for interest dividend:
A reserve to compensate for the difference between expected interest rate of each insurance product and dividend benchmark rate. The Group has been recording this reserve only for the contracts that are or are expected to be effective for more than a year from the reporting date, excluding nonparticipating policies, since 1987. However, the interest dividends from reserve insurance sold after October 1, 1997 are based on the expected rate deducted from the interest dividends.

- Reserve for expense dividend:
A reserve to compensate for the difference between expected operation expense rate and expense dividend benchmark rate. The Group has been recording this reserve only for the contracts which are or are expected to be effective for more than a year as of the reporting date, excluding nonparticipating policies, since 2001.

- Reserve for long-term duration dividend:
A reserve for the long-term maintained contracts which is calculated by the following formula are as follow; (Net level premium reserve of prior reporting period - Deferred acquisition costs) * {0.1% + (Number of years passed - 6} * 0.02%)

The Group has been recording this reserve only for the contracts that remain for more than six years as of the reporting date, excluding nonparticipating policies, since 1987.

- Reserve for revaluation dividends:
A reserve for the participating policy holder's portion of asset revaluation surplus for land and building in accordance with Asset Revaluation Law in 1990. The Group records this reserve only for the contracts that remained for more than two years from March 31, 1989 and more than one year from March 31, 1999, respectively.

(6) Dividend reserve for policyholders' income participation

Dividend reserve for policyholders' income participation refers to the amount to be reserved, in lump sum and depending on the business performance, for the purpose of distributing reserves after paying stockholders as future dividends to policyholders or for additional accumulation as part of policy reserve other than the reserve for policyholders' dividend. In accordance with the Supervisory Regulation, it is used as a reserve for policyholders' dividends and required to be used at least within five years from the end of the year of appropriation.

(7) Reserve for losses on dividend insurance contract

In accordance with the Regulation on Supervision of Insurance Business, the Group accumulates reserve for losses of participating insurance contract within 30/100 of policyholders' share in dividend-paying insurance income. A reserve for compensation for losses on dividend-paying insurance

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Insurance contracts liabilities (cont'd)

contracts accumulated shall be used for replenishing the losses of the participating insurance contract, and the balance after the replenishment shall be used as for the source of policyholders' dividend for individual policyholders, for five fiscal years from the end of the fiscal year when the accumulation is made.

2.3.18 Reinsurance

The Group cedes insurance risk by reinsurance agreements with reinsurers. Reinsurance assets represent recoverable amounts due from reinsurance companies.

Reinsurance assets are reviewed for impairment at each reporting date. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in profit or loss in consolidated statements of comprehensive income.

2.3.19 Liability adequacy test

The Group assesses at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire difference shall be recognized in profit or loss.

The Group applies the liability adequacy test that meets specified minimum requirements by KIFRS 1104. The minimum requirements are the following:

- The test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.
- If the test shows that the liability is inadequate, the entire difference is recognized in profit or loss.

2.3.20 Separate accounts

The Group carries separate accounts for retirement insurance, retirement pension and variable life insurance products according to the provision in the Korean Insurance Business Law. The separate account assets (liabilities) are stated at net of accounts payable and accounts receivable in general account incurred in the course of transactions between general accounts and separate accounts.

Revenues and expenses of investment-linked type separate account are not presented in the general account statement of operations, while the revenues and expenses of guaranteed-interest type separate account are accounted for in the general account statement of operations in gross amounts as separate account income and separate account expense, respectively.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.21 Trust accounts

The Group obtained the authorization to operate a trust business from the Financial Service Commission and operates its trust business. In accordance with the regulation on trust business, trust estates recognized as separate accounts and trust fee related to operating, administration and disposal of trust estates is recognized as trust fee in operating revenue.

2.3.22 Policyholders' equity adjustment

Policyholders' equity adjustments consist of reserves for stabilization of participating policyholders' dividends, reserves for social contributions and net gain (loss) from valuation of investment securities. The stabilization reserves for participating policy holders' dividends and reserves for social contributions funds are the amounts reserved for future dividends to participating policyholders and future social contributions through asset revaluation surplus for land and building in accordance with Asset Revaluation Law.

Unrealized holding gains or losses on available-for-sale securities, on held-to-maturity securities and on valuation of investment in associates and subsidiaries are allocated to policyholder's equity adjustment using the current year's ratio of policyholders' equity and shareholders' equity.

2.3.23 Reserves for unpaid life insurance policy benefit

Pursuant to the unrestricted management of reserves for unpaid life insurance policy benefit by Financial Supervisory Services (FSS), the Group pays life insurance policy benefits at the request of a policyholder even if the legitimate obligation to pay has expired.

2.3.24 Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

2.3.25 Recognition of revenue and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.25 Recognition of revenue and expenses (cont'd)

The Group recognizes the income when the followings criteria are met.

(1) Premium income

Premium income revenue is recognized at the time when such premium payment becomes due. If premium income is received before the premium due date, the Group records unearned insurance premium based on calendar period calculation.

(2) Interest income and interest expense

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

(3) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Fees and commission expense which relate mainly to transaction and service fees, are expensed as the services are rendered.

(4) Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

(5) Rendering of services

Revenue from services rendered is recognized in profit or loss when recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, in proportion to the stage of completion of the transaction at the reporting date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.25 Recognition of revenue and expenses (cont'd)

(6) Dividends

Revenue is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

(7) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

2.3.26 Current and deferred income tax

(1) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

(2) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.26 Current and deferred income tax (cont'd)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

2.3.27 Government grants

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The loan or assistance is initially recognized and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and the proceeds received.

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures

2.4.1 Changes in accounting policies and disclosures

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The nature and the impact of each new standard or amendment are described below:

2.4.1.1 KIFRS 1114 *Regulatory Deferral Accounts*

KIFRS 1114 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of KIFRS. Entities that adopt KIFRS 1114 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. This standard is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing KIFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

2.4.1.2 Amendments to KIFRS 1111 *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to KIFRS 1111 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant KIFRS 1103 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to KIFRS 1111 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively applied for annual periods beginning on or after January 1, 2016. These amendments do not have any impact on the Group.

2.4.1.3 Amendments to KIFRS 1016 and KIFRS 1038 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in KIFRS 1016 Property, Plant and Equipment and KIFRS 1038 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively for annual periods beginning on or after January 1, 2016 and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

2.4.1 Changes in accounting policies and disclosures (cont'd)

2.4.1.4 Amendments to KIFRS 1016 and KIFRS 1041 *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of KIFRS 1041 Agriculture. Instead, KIFRS 1016 will apply. After initial recognition, bearer plants will be measured under KIFRS 1016 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of KIFRS 1041 measured at fair value less costs to sell. For government grants related to bearer plants, KIFRS 1020 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2016 and do not have any impact on the Group as it does not have any bearer plants.

Annual Improvements *2012-2014 Cycle*

These new standards and amendments were applied for annual periods beginning on or after January 1, 2016. The improvements include:

2.4.1.5 KIFRS 1105 *Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in KIFRS 1105. This amendment is applied prospectively.

2.4.1.6 KIFRS 1107 *Financial Instruments: Disclosures*

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in KIFRS 1107 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be made retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to KIFRS 1107 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

2.4.1 Changes in accounting policies and disclosures (cont'd)

2.4.1.7 KIFRS 1019 *Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

2.4.1.8 KIFRS 1034 *Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

2.4.1.9 Amendments to KIFRS 1001 *Disclosure Initiative*

The amendments to KIFRS 1001 clarify, rather than significantly change, existing KIFRS 1001 requirements. The amendments clarify:
- The materiality requirements in KIFRS 1001
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are retrospectively applied and do not have any impact on the Group.

2.4.1.10 Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1028 *Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under KIFRS 1110 Consolidated Financial Statements. The amendments to KIFRS 1110 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.
Furthermore, the amendments to KIFRS 1110 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to KIFRS 1028 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are retrospectively applied and do not have any impact on the Group since the Group does not apply the exceptions.

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

2.4.1 Changes in accounting policies and disclosures (cont'd)

2.4.1.11 KIFRS 1011 *Construction Contract* and KIFRS 2115 *Agreements for the Construction of Real Estate*

The amendments require additional disclosures of information on construction contracts when the percentage of work completed is measured based on the ratio of the total costs incurred to date to the total estimated contract costs, and the contract revenue exceeds 5% of the preceding year's total revenue. Providing comparative information in the year in which an entity adopts it for the first time, is not compulsory.

These amendments are not relevant for the Group as it did not enter into any construction contract during the current period.

3. Significant accounting judgments, estimates and assumptions

3.1 Estimates and assumptions

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions are based on the historical experience and relevant other factors. Actual result may differ from these estimates.

When the Group assesses whether there is any indication that available-for-sale equity investments may be impaired, it considers the duration and degrees of decline in the fair value below the cost. When the decline in fair value below the cost of available-for-sale equity investments is significant or prolonged, the Group reclassifies the accumulated valuation loss on fair value previously recognized in equity to current loss. Starting from this year, the Group has applied new standards of determining the impairment loss of AFS equity investments as 'significant' or 'prolonged' when the decline in fair value below the cost of the equity investments is more than 50% and prolonged for more than 1 year. These changes are reasonable considering the local regulations and economic situation.

(1) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. Significant accounting judgments, estimates and assumptions (cont'd)

3.1 Estimates and assumptions (cont'd)

(2) Impairment on loans and receivables

Individual and collective allowance for doubtful accounts is calculated to assess impairment on loans and receivables. When individual allowance for doubtful accounts. When individual allowance for doubtful accounts is calculated, expected recoverable amount is calculated by estimated future cash flows considering borrowers' sales or collateral. In addition, when the collective allowance for doubtful accounts is calculated, default rates, duration of loss and loss rates at bankruptcy are estimated based on historical impairment.

(3) Impairment of non-financial assets

The Group tests non-financial assets for impairment at the end of every reporting period. The intangible assets with goodwill and indefinite useful lives are tested for impairment whenever there is an indication that the intangible asset may be impaired. Other non-financial assets are tested for impairment whenever there is an indication that the carrying value cannot be recovered. The value in use calculation is based on the management's assumption on future expected cash flows generated from CGU or asset. For the calculation of present value of future expected cash flows, adequate discount rate should be chosen.

(4) Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies

(5) Development costs

Development costs are capitalized in accordance with the accounting policy as mentioned in Note 2.2. Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

(6) Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

3. Significant accounting judgments, estimates and assumptions (cont'd)

3.1 Estimates and assumptions (cont'd)

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'A+' rating or above, as set by an internationally acknowledged rating agency. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

(7) Provision for decommissioning

The Group has recognized a provision for decommissioning obligations associated with a leased building. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the plant from the site and the expected timing of those costs.

(8) Income tax

There are different kinds of transactions and calculation methods which make final tax determination uncertain. Based on an estimate of the additional taxes to be imposed, if there is a difference between final tax amount and initially recognized tax amount, the difference will affect current income tax and deferred income tax assets and liabilities at the period when such determinations is made.

(9) Surtax on undistributed corporate earnings
The Group shall pay an additional surtax where the use of corporate earnings on qualifying investments, wage increase and dividend payments fall below a certain portion of its taxable income for 3 years from 2015. As the Group considers the surtax on its undistributed earnings when computing its corporate income tax, the Group's income tax may change arising from changes in investment, wage growth, or dividend payouts.

(10) Liability Adequacy test

The Group recognizes the shortfall as its loss by assessing the adequacy of insurance liability. In order to estimate the cash flow anticipated to occur from the current insurance contract, reasonable anticipation of cash inflows including premium income and that of cash outflows including insurance, refund, reserve, expenses etc. is required. For this purpose, return on investment, ratio of risk, ratio of cancellation and expense rate use the presumptions considering the experience of the past and the trend of the future. The long-term insurance uses the discount rate reflecting the past experience and the current market information in order to calculate the future cash flow into the current value. Also, adequacy of individually estimated claims is assessed for reserves by selecting the most adequate model according to the trend of claims paid among various statistical methods. The Group applies the selected presumption consistently by subdividing by the same or similar products.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

4.1 KIFRS 1109 Financial Instruments

The KASB issued the final version of KIFRS 1109 Financial Instruments that replaces KIFRS 1039 Financial Instruments: Recognition and Measurement and all previous versions of KIFRS 1109. KIFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. KIFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. However, in accordance with an Amendment to IFRS 4 on September 13, 2016, an insurer is permitted to opt to apply temporary exemption from IFRS 9 for annual periods beginning before January 1, 2021 if, and only if it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance at its annual reporting date that immediately precedes April 1, 2016.
An insurer's activities are predominantly connected with insurance if, and only if the carrying amount of its liabilities arising from contracts within the scope of this IFRS, non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39 and liabilities that arise because the insurer issues, or fulfils obligations arising from the contracts, is greater than 90 per cent, or less than or equal to 90 percent but greater than 80 percent of the carrying amounts of total liabilities, and the insurer does not engage in a significant activity unconnected with insurance.
The Group reviews to apply the new standard, KIFRS 1109 from the annual periods beginning on or after January 1, 2021 pursuant to the Amendment to IFRS 4 although KIFRS 1104 Insurance contract has not been amended and announced as of December 31, 2016. Accordingly, the Group has not performed any financial impact analysis as of the reporting date, even if financial impact analysis, accounting policies establishment, accounting system establishment and stabilization need to take place by stage for the adoption of the new standard.
Except for hedge accounting, retrospective application is required at the application of the new standard but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The key changes in the new standard are as follows:

(1) Classification and measurement - Financial assets are classified as one of the three categories, fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and amortized cost on the basis of a holder's business model and instrument's contractual cash flow characteristics. An entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of the new Standard that is not held for trading. The equity instrument is not subject to an impairment test and its accumulated valuation gain or loss in accumulated other comprehensive income or loss is not recycled to profit or loss but recognized in retained earnings or certain category in equity directly at the time of derecognition such as disposition.

(2) Derivative embedded in the financial assets are not bifurcated and a reclassification among the three categories are strictly limited.
Impairment - An entity recognizes a credit allowance for expected credit losses on a lease receivable, a contract asset or a loan commitment and debt instruments measured at FVOCI and amortized costs.

4. Standards issued but not yet effective (cont'd)

4.1 KIFRS 1109 Financial Instruments (cont'd)

For a measurement of the expected credit loss, financial instruments are classified as one of the three categories, Stage 1, Stage 2 or Stage 3 pursuant to a significant increase in credit risk on the financial instruments or the risk of default occurring. A credit allowance for the financial instruments subject to Stage 2 or Stage 3 is measured at an amount equal to the lifetime expected credit losses while a credit allowance for the financial instruments subject to Stage 1 is measured at an amount equal to the 12-month expected credit losses.

(3) Hedge accounting - The objective of hedge accounting is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks. In this regard, it is not permitted to discontinue to apply the hedge accounting if the objective of risk management activities does not change, and the hedge accounting continues to be applied adjusting a quantity of hedged items or hedging instruments to meet hedge effectiveness. Non-derivative financial assets measured at FVPL or a combined asset of derivative and non-derivative is permitted to designate as a hedging instrument, and a net zero position or a combined exposure of derivative and non-derivative is also permitted to designate as a hedged item.

4.2 KIFRS 1115 Revenue from Contracts with Customers

KIFRS 1115 establishes a five-step model to account for revenue arising from contracts with customers.
The current standards such as KIFRS 1018 present revenue recognition standard per transaction type of sale of goods, provision of services, interest income, royalty income, dividend income, construction contract, etc. In KIFRS 1115, the revenue is recognized by applying a five-step model (1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation) for all types of contract.

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date.

The Group primarily engages in life insurance business, etc. and related reinsurance business and asset management in accordance to Regulation on Insurance Business. The Group's operating revenue attributable to revenue related to insurance contracts subject to KIFRS 1104 application and revenue related to financial instruments subject to KIFRS 1039 application, is exempt from the application scope of KIFRS 1115.

The Group is in the process of analyzing the impact of the adoption of KIFRS 1115 as of December 31, 2016, and plans to undertake updates on its internal control processes or a change in the accounting system in relation to the adoption of KIFRS 1115. The Group will be analyzing the financial impact of the adoption of KIFRS 1115 by the end of 4th quarter of 2017 and disclose the results in the notes to the financial statements for the 4th quarter of 2017.

4. Standards issued but not yet effective (cont'd)

4.3 Amendments to KIFRS 1110 and KIFRS 1028 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendments are not expected to have impact on the Group.

4.4 Amendments to KIFRS 1007 Statement of Cash Flows: Disclosure Initiative

The amendments to KIFRS 1007 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity 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. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

4.5 Amendments to KIFRS 1012 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs 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. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.
Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. These amendments are not expected to have any impact on the Group.

4.6 Amendments to KIFRS 1102 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to KIFRS 1102 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

4. Standards issued but not yet effective (cont'd)

4.6 Amendments to KIFRS 1102 Classification and Measurement of Share-based Payment Transactions (cont'd)

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

5. Cash and due from banks

5-1) Cash and cash equivalents as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Cash	₩	1,257	₩	1,583
Current deposits		9,307		2,397
Demand deposits		76,347		206,269
MMDA		523,150		758,193
Other deposits		56,115		89,955
	₩	666,176	₩	1,058,397

5-2) Due from banks as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Time deposits	₩	55,728	₩	30,477
Future transactions deposits		92,553		101,334
Reserve for claims of customers' deposits		42,000		83,500
Other deposits		520,983		454,955
	₩	711,264	₩	670,266

5. Cash and due from banks (cont'd)

5-3) Bank deposits with withdrawal restrictions as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015	Details
Guarantee deposits for checking accounts	₩ 30	₩ 63	Guarantee deposits for checking accounts.
Future transactions deposits	92,553	101,334	In relation to derivatives
Other deposits	93,027	24,579	Customers' deposits of overseas futures FX margin, deposits for loan transactions, etc.
Reserve for claims of customers' deposits, etc.	42,000	83,500	Reserve for return of customer deposits
Time deposits	2,088	2,088	Payment settlement of micro payment etc.
	₩ 229,698	₩ 211,564	

6. Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Hybrid financial instruments		
Overseas securities	₩ -	₩ 59,420
Equity-linked securities	24,256	35,077
Other embedded derivatives	3,518	4,791
Derivative embedded bonds	47,589	32,545
Earnings adjustment on the date of transaction	(17)	(97)
	75,346	131,736
Valuation and management of fair value		
Reserve for claims of customers' deposits (*)	260,582	215,203
	₩ 335,928	₩ 346,939

(*) Under the Capital Market and Finance Investment Services Act, the Group has reserved for claims of customers' deposits (trust) to Korea Securities Finance Corporation (KSFC) in the amount required by FSC and the use is restricted.

7. Trading assets

7-1) Trading assets as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Equity securities:		
Stocks	₩ 20,795	₩ 65,284
Money market fund	897,648	638,777
Other securities	-	-
	918,443	704,061
Debt securities:		
Government and public bonds	725,859	438,567
Special bonds	361,103	667,067
Financial institutions bonds	872,819	1,264,734
Corporate bonds	307,485	414,186
Overseas securities	696,389	534,609
Other securities	68,420	63,607
	3,032,075	3,382,770
	₩ 3,950,518	₩ 4,086,831

7-2) Trading assets pledged as collaterals as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015	Collaterals to
Repurchase agreements	₩ 2,081,021	₩ 2,646,289	KSFC, etc.

8. Available-for-sale financial assets

8-1) Available-for-sale financial assets as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Equity securities		
Listed share	₩ 672,013	₩ 635,829
Unlisted share	435,430	559,109
Equity investments	147,244	123,100
Beneficiary certificates	4,161,483	3,788,445
Overseas securities	924,877	1,044,810
Other securities	25,747	38,490
	6,366,794	6,189,783
Debt securities		
Government and public bonds	5,582,335	6,117,777
Special bonds	4,934,688	6,357,961
Financial institutions bonds	213,294	177,880
Corporate bonds	2,000,035	2,170,675
Overseas securities	2,032,880	1,658,527
Other securities	7,943	10,016
	14,771,175	16,492,836
	₩ 21,137,969	₩ 22,682,619

The fair values of domestic currency debt securities and foreign currency debt securities of available-for-sale financial assets are based on the average prices of base prices on the latest business day, which are provided by Korea Asset Pricing (KAP) and KIS Pricing Inc. The fair values of unlisted stocks and investment, of which the posted prices are not available in an active market, are calculated, based on appraised values in the appraisal reports of Korea Asset Pricing.

8-2) Gain or loss on valuation of available-for-sale financial assets accounted for as accumulated other comprehensive income allocated to policyholder's equity adjustments and deferred income tax liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Gain on valuation of available-for-sale securities	₩ 633,480	₩ 934,346
Amount allocated to policyholder's equity adjustment	(142,579)	(249,321)
Amount allocated to deferred income tax liabilities	(118,798)	(165,776)
Amount allocated to accumulated other comprehensive income	372,103	519,249

8-3) Impairment loss on available-for-sale financial assets for the years ended December 31, 2016 and 2015 amounted to ₩12,663 million and ₩32,114 million, respectively.

8. Available-for-sale financial assets (cont'd)

8-4) Available-for-sale financial assets pledged as collaterals as of December 31, 2016 and 2015 are as follows (Korean won in millions):

Purpose	December 31, 2016	December 31, 2015	Counter party
Collateral for derivatives	₩ 60,845	₩ 130,345	Morgan Stanley, etc.
Repurchase agreements	159,062	159,940	KSFC, etc.
	₩ 219,907	₩ 290,285	

8-5) The Group reclassified available-for-sale financial assets held as of October 4, 2016 to held-to-maturity financial assets for the purpose of efficient asset management, etc. The carrying amounts and fair value as of the reclassification date and the amortization of accumulated valuation profit and loss reflected in the current profit and loss are as follows.

	Book value	Fair value	Accumulated valuation profit (loss) as of the reclassification date	Amortization amount for current year (*)
Government and public bonds	₩ 374,058	₩ 374,058	₩ 40,717	₩ (1,102)
Overseas securities	342,785	342,785	(1,578)	(22)
	₩ 716,843	₩ 716,843	₩ 39,139	₩ (1,124)

In addition, for the purpose of efficient asset management, the Group reclassified available-for-sale financial assets held as of June 18, 2015 to held-to-maturity financial assets. The carrying amount and fair value at the date of reclassification, and the amortization of cumulative valuation gain reflected in the current income are as follows.

	Book value	Fair value	Accumulated valuation profit as of the reclassification date	Amortization amount for current year (*)	Amortization amount for prior year (*)
Government and public bonds	₩ 192,033	₩ 192,033	₩ 15,331	₩ (1,561)	₩ (820)
Overseas securities	21,908	21,908	1,910	(249)	(131)
	₩ 213,941	₩ 213,941	₩ 17,240	₩ (1,810)	₩ (951)

(*) The Group amortizes cumulative valuation gains and losses recorded in accumulated other comprehensive income as of the reclassification date over the remaining terms of validity using the effective interest rate method, and reflects it in current profit and loss. This amount is before deducting income tax effect.

9. Held-to-maturity financial assets

9-1) Held-to-maturity financial assets as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Government and public bonds	₩ 10,302,432	₩ 9,947,224
Special bonds	5,474,841	5,590,901
Financial institutions bonds	562,356	582,754
Corporate bonds	1,143,503	1,180,115
Foreign securities	9,704,417	5,559,274
	₩ 27,187,549	₩ 22,860,268

9-2) Gain or loss on valuation of held-to-maturity financial assets accounted for as accumulated other comprehensive income and policyholder's equity adjustment allocated to policyholder's equity adjustments and deferred income tax liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Gain on valuation of held-to-maturity securities	₩ 102,097	₩ 75,022
Amount allocated to policyholder's equity adjustment	(34,257)	(26,195)
Amount allocated to deferred income tax liabilities	(16,417)	(11,816)
Amount allocated to accumulated other comprehensive income	51,423	37,011

9-3) Held-to-maturity financial assets pledged as of December 31, 2016 and 2015 are as follows (Korean won in millions):

Purpose	December 31, 2016	December 31, 2015	Counter party
Collateral for derivatives	₩ 638,564	₩ 597,107	Barclays bank, etc.

10. Loans

10-1) Loans as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Call loans	₩	700	₩	1,100
Policy loans		5,859,182		5,819,259
Loans secured by investment securities		296,777		263,335
Loans secured by real estate		5,037,882		4,242,217
Unsecured loans		6,360,438		5,831,607
Loans secured by third party guarantees		812,390		597,070
Other loans		131,095		143,521
		18,498,464		16,898,109
Present value discount		(736)		(1,222)
Allowance for loan losses		(50,093)		(90,754)
Deferred loan origination costs and fees		15,783		13,978
	₩	18,463,418	₩	16,820,111

10-2) Changes in allowance for loan losses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Beginning balance	₩	90,754	₩	84,416
Provision for loan losses		14,351		21,260
Write-off		(69,452)		(28,911)
Unwinding effect		(386)		(411)
Recovery of bad debts		14,826		14,400
Ending balance	₩	50,093	₩	90,754

10-3) Changes in deferred loan origination costs and fees for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Beginning balance	₩	13,978	₩	12,461
Loan originations		19,847		21,575
Amortization		(18,042)		(20,058)
Ending balance	₩	15,783	₩	13,978

11. Other receivables

11-1) Details of other receivables as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Premiums transferred automatically	₩	83,173	₩	3,570
Insurance settlement adjustments		1,024		992
Reinsurance receivables		49,568		46,318
Other insurance receivables		31,049		21,704
Insurance receivables		164,814		72,584
Accounts receivables		275,017		447,288
Guarantee deposits		126,198		130,499
Accrued income		1,116,930		994,289
Others		55,015		41,644
		1,737,974		1,686,304
Present value discount		(8,077)		(7,440)
Allowance for other receivables		(33,965)		(32,459)
	₩	1,695,932	₩	1,646,405

11-2) Changes in the allowance for other receivables for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Beginning balance	₩	32,459	₩	36,071
Provision for other receivables		3,335		(123)
Write-off/etc.		(1,830)		(3,490)
Recovery of bad debts		1		1
Ending balance	₩	33,965	₩	32,459

12. Investments in associates and joint ventures

12-1) Investments in associates and joint venture as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	Country	Reporting date	December 31, 2016			December 31, 2015		
				Book Value	Owner ship (%)		Book value	Owner ship (%)
Associates								
A&D Credit Information Co., Ltd. (*2)	Korea	December 31	₩	3,052	19.5	₩	2,998	19.5
Kocref No.14 (*1,2)	Korea	November 30		5,118	14.6		5,686	14.6
Trus Y 7 REIT Co., Ltd. (*1,2)	Korea	October 31		3,543	8.3		3,620	8.3
KoFC Kyobo Hanwha 2010-6 (*3)	Korea	December 31		2,506	25.0		12,571	25.0
I2S Korea Co., Ltd.	Korea	December 31		1,374	25.0		1,371	25.0
Mastern 2 REIT (*2)	Korea	December 31		-	-		13,177	12.5
Kyobo 4 Special Purpose Acquisition Company (*2)	Korea	December 31		-	-		8	0.1
Kyobo 5 Special Purpose Acquisition Company (*2)	Korea	December 31		30	0.3		29	0.3
Hwaseong-Jeongnam General Industry Complexes Co., Ltd. (*2,4)	Korea	December 31		-	19.0		10	19.0
Kyobo BNK Special Purpose Acquisition Company (*2)	Korea	December 31		100	5.0		-	-
				15,723			39,470	
Jointly controlled entities								
Kyobo AXA Investment Management Co., Ltd.	Korea	December 31		29,667	50.0		28,879	50.0
Saeng Bo Real Estate Trust Co., Ltd.	Korea	December 31		44,897	50.0		38,092	50.0
				74,564			66,971	
			₩	90,287		₩	106,441	

(*1) The latest annual financial statements of the associates were utilized since the difference between the end of the reporting period of associates and that of the Group was less than three months. There were no significant transactions or events that occurred between associates' reporting date and the date of the Group's financial statements.
(*2) The entities are classified as associates even though the Controlling Company holds less than 20% of shares, since members of the Controlling Company's Board of Directors are also members of the entities' board and thus have significant influence over the entities.
(*3) There were no changes in the ratio of shares and investment principal has decreased due to even allocation of investment principal to investors for the years ended December 31, 2016.
(*4) The application of equity method was discontinued for the balance of investments account was below zero.

12. Investments in associates and joint ventures (cont'd)

12-2) Changes in investments in associates and jointly controlled entities for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016					
	Beginning balance	Acquisition	Disposal	Valuation	Dividend	Ending balance
Associates:						
A&D Credit Information Co., Ltd.	₩ 2,998	₩ -	₩ -	₩ 103	₩ (49)	₩ 3,052
Kocref No.14	5,686	-	(1,832)	10,673	(9,409)	5,118
Trus Y 7 REIT CO., Ltd.	3,620	-	-	(51)	(26)	3,543
KoFC Kyobo Hanwha 2010-6	12,571	-	(8,430)	1,328	(2,963)	2,506
I2S Korea Co., Ltd.	1,371	-	-	8	(5)	1,374
Mastern 2 REIT	13,177	-	(15,103)	10,488	(8,562)	-
Kyobo 4 Special Purpose Acquisition Company	8	-	(4)	(4)	-	-
Kyobo 5 Special Purpose Acquisition Company	29	-	-	1	-	30
Hwaseong-Jeongnam General Industry Complexes Co., Ltd.	10	181	-	(191)	-	-
Kyobo BNK Special Purpose Acquisition Company	-	55	-	45	-	100
	39,470	236	(25,369)	22,400	(21,014)	15,723
Jointly controlled entities:						
Kyobo AXA Investment Management Co., Ltd.	28,879	-	-	3,788	(3,000)	29,667
Saeng Bo Real Estate Trust Co., Ltd.	38,092	-	-	9,805	(3,000)	44,897
	66,971	-	-	13,593	(6,000)	74,564
	₩ 106,441	₩ 236	₩ (25,369)	₩ 35,993	₩ (27,014)	₩ 90,287

12. Investments in associates and joint ventures (cont'd)

12-2) Changes in investments in associates and jointly controlled entities for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

	2015					
	Beginning balance	Acquisition	Disposal	Valuation	Dividend	Ending balance
Associates:						
A&D Credit Information Co., Ltd.	₩ 2,945	₩ -	₩ -	₩ 102	₩ (49)	₩ 2,998
Kocref No.8	2,751	-	(2,725)	(26)	-	-
Kocref No.14	5,947	-	-	595	(856)	5,686
Trus Y 7 REIT Co., Ltd.	3,738	-	-	104	(222)	3,620
KoFC Kyobo Hanwha 2010-6	13,737	-	(4,333)	3,167	-	12,571
I2S Korea Co., Ltd.	1,369	-	-	17	(15)	1,371
Mastern 2 REIT	13,414	-	-	802	(1,039)	13,177
Kyobo With Special Purpose Acquisition Company	26	-	(14)	(12)	-	-
Kyobo 3 Special Purpose Acquisition Company	1	-	(4)	3	-	-
Kyobo 4 Special Purpose Acquisition Company	-	4	-	4	-	8
Kyobo 5 Special Purpose Acquisition Company	-	15	-	14	-	29
Hwaseong-Jeongnam General Industry Complexes Co., Ltd	-	10	-	-	-	10
	43,928	29	(7,076)	4,770	(2,181)	39,470
<Jointly controlled entities>						
Kyobo AXA Investment Management Co., Ltd.	28,327	-	-	3,102	(2,550)	28,879
Saeng Bo Real Estate Trust Co., Ltd.	33,317	-	-	5,275	(500)	38,092
	61,644	-	-	8,377	(3,050)	66,971
	₩ 105,572	₩ 29	₩ (7,076)	₩ 13,147	₩ (5,231)	₩ 106,441

12. Investments in associates and joint ventures (cont'd)

12-3) Condensed financial information for investments in associates and jointly controlled entities as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016				December 31, 2015			
	Assets	Liabilities	Operating income	Net income (expenses)	Assets	Liabilities	Operating income	Net income (expenses)
Associates								
A&D Credit Information Co., Ltd.	₩ 22,732	₩ 7,079	₩ 41,240	₩ 526	₩ 22,073	₩ 6,697	₩38,274	₩ 522
Kocref No.14	57,446	22,446	100,132	72,993	108,469	69,582	14,353	4,063
Trus Y 7 REIT Co., Ltd.	101,812	58,923	6,620	(616)	103,264	59,429	7,425	1,249
KoFC Kyobo Hanwha 2010-6	10,027	1	5,781	5,505	50,394	130	12,902	12,488
I2S Korea Co., Ltd.	7,265	1,768	53	29	7,798	2,313	64	69
Mastern 2 REIT	-	-	-	-	218,764	112,967	16,895	6,576
Kyobo 4 Special Purpose Acquisition Company	-	-	-	-	6,825	809	41	(55)
Kyobo 5 Special Purpose Acquisition Company	11,945	1,381	160	47	11,863	1,359	67	(8)
Hwaseong-Jeongnam General Industry Complexes Co., Ltd	151,320	154,528	213	(3,978)	50	-	-	-
Kyobo BNK Special Purpose Acquisition Company	14,777	1,754	51	(33)	-	-	-	-
Jointly controlled entities								
Kyobo AXA Investment Management Co., Ltd.	64,434	5,099	27,507	7,593	62,939	5,180	25,391	6,189
Saeng Bo Real Estate Trust Co., Ltd.	113,787	24,027	44,683	20,573	94,454	18,302	30,914	12,166

12-4) The market value for associates and jointly controlled entities which are publicly traded as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Fair value	Book value	Fair value	Book value
Trus Y 7 REIT Co., Ltd.	₩ 3,028	₩ 3,542	₩ 3,196	₩ 3,620
Kyobo 5 Special Purpose Acquisition Company	30	30	-	-
Kyobo BNK Special Purpose Acquisition Company	109	100	-	-

12-5) Details of accumulated other comprehensive income for associates allocated to policyholder's equity adjustments and deferred income tax liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Gain on valuation of associates	₩ (1,751)	₩ (603)
Amount allocated to policyholder's equity adjustment	260	689
Amount allocated to deferred income tax liabilities	361	21
Amount allocated to accumulated other comprehensive income	(1,130)	65

13. Classification by categories of financial instruments

13-1) The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016							
	Financial assets at FVTPL	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Derivatives for hedging purpose	Financial liabilities at FVTPL	Financial liabilities recognized by amortized cost	Total
Assets :								
Cash and due from Banks	₩ -	₩ -	₩ -	₩ 1,377,440	₩ -	₩ -	₩ -	₩ 1,377,440
Financial assets designated at fair value through profit or loss	335,928	-	-	-	-	-	-	335,928
Trading assets	3,950,518	-	-	-	-	-	-	3,950,518
Derivatives	233,209	-	-	-	8,568	-	-	241,777
Available-for-sale financial assets	-	21,137,969	-	-	-	-	-	21,137,969
Held-to-maturity financial assets	-	-	27,187,549	-	-	-	-	27,187,549
Loans	-	-	-	18,463,418	-	-	-	18,463,418
Other receivables	-	-	-	1,695,932	-	-	-	1,695,932
	₩ 4,519,655	₩21,137,969	₩27,187,549	₩ 21,536,790	₩ 8,568	₩ -	₩ -	₩74,390,531
Liabilities :								
Financial liabilities designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,503,864	₩ -	1,503,864
Trading liabilities	-	-	-	-	-	427,848	-	427,848
Derivatives	-	-	-	-	731,843	385,860	-	1,117,703
Borrowings	-	-	-	-	-	-	1,451,075	1,451,075
Other financial liabilities	-	-	-	-	-	-	1,412,401	1,412,401
	₩ -	₩ -	₩ -	₩ -	₩ 731,843	₩ 2,317,572	₩ 2,863,476	₩ 5,912,891

13. Classification by categories of financial instruments (cont'd)

13-1) The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions) (cont'd):

	December 31, 2015							
	Financial assets at FVTPL	Available-for-sale financial assets	Held-to-Maturity financial assets	Loans and receivables	Derivatives for hedging purpose	Financial liabilities at FVTPL	Financial liabilities recognized by amortized cost	Total
Assets :								
Cash and due from banks	₩ -	₩ -	₩ -	₩ 1,728,663	₩ -	₩ -	₩ -	₩ 1,728,663
Financial assets designated at fair value through profit or loss	346,939	-	-	-	-	-	-	346,939
Trading assets	4,086,831	-	-	-	-	-	-	4,086,831
Derivatives	180,850	-	-	-	10,037	-	-	190,887
Available-for-sale financial assets	-	22,682,619	-	-	-	-	-	22,682,619
Held-to-maturity financial assets	-	-	22,860,268	-	-	-	-	22,860,268
Loans	-	-	-	16,820,111	-	-	-	16,820,111
Other receivables	-	-	-	1,646,405	-	-	-	1,646,405
	₩ 4,614,620	₩ 22,682,619	₩ 22,860,268	₩ 20,195,179	₩ 10,037	₩ -	₩ -	₩ 70,362,723
Liabilities :								
Financial liabilities designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,612,755	₩ -	₩ 1,612,755
Trading liabilities	-	-	-	-	-	210,660	-	210,660
Derivatives	-	-	-	-	475,300	303,989	-	779,289
Borrowings	-	-	-	-	-	-	2,094,276	2,094,276
Other financial liabilities	-	-	-	-	-	-	1,473,273	1,473,273
	₩ -	₩ -	₩ -	₩ -	₩ 475,300	₩ 2,127,404	₩ 3,567,549	₩ 6,170,253

13. Classification by categories of financial instruments (cont'd)

13-2) Gains (losses) on categories of financial instruments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016						
	Interest income, net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income, net (*)	Total net income	Other compre-hensive income
Financial assets designated at fair value through profit or loss	₩ -	₩ 749	₩ 7,537	₩ -	₩ (13,118)	₩ (4,832)	₩ -
Trading assets	73,771	21,846	(22,241)	-	24,928	98,304	-
Available-for-sale financial assets	489,243	124,482	-	(12,663)	381,866	982,928	(147,146)
Held-to-maturity financial assets	979,282	2,900	-	-	374,134	1,356,316	14,412
Derivatives for hedging purpose	-	35,714	(475,741)	-	-	(440,027)	27,800
Derivatives for trading purpose	-	9,212	(46,265)	-	-	(37,053)	-
Loans and receivables	1,073,734	2,318	-	(17,686)	12,365	1,070,731	-
Financial liabilities at fair value through profit or loss	-	(33,137)	34,909	-	-	1,772	-
Trading liabilities	-	(14,699)	5,040	-	-	(9,659)	-
Financial liabilities measured at amortized cost	(45,585)	-	-	-	-	(45,585)	-
	₩ 2,570,445	₩ 149,385	₩ (496,761)	₩ (30,349)	₩ 780,175	₩ 2,972,895	₩ (104,934)

	2015						
	Interest income, Net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income, net (*)	Total net income	Other compre-hensive income
Financial assets designated at fair value through profit or loss	₩ -	₩ (13)	₩ (4,339)	₩ -	₩ (4,074)	₩ (8,426)	₩ -
Trading assets	85,691	26,436	(12,377)	-	30,018	129,768	-
Available-for-sale financial assets	575,599	190,372	-	(32,114)	424,480	1,158,337	1,824
Held-to-maturity financial assets	882,266	604	-	-	271,336	1,154,206	(4,896)
Derivatives for hedging purpose	-	(36,738)	(362,662)	-	-	(399,400)	9,355
Derivatives for trading purpose	-	(52,278)	(31,376)	-	-	(83,654)	-
Loans and receivables	1,018,444	3,215	-	(20,358)	30,195	1,031,496	-
Financial liabilities at fair value through profit or loss	-	(39,196)	34,981	-	-	(4,215)	-
Trading liabilities	-	(5,425)	(4,536)	-	-	(9,961)	-
Financial liabilities measured at amortized cost	(57,681)	-	-	-	-	(57,681)	-
	₩ 2,504,319	₩ 86,977	₩ (380,309)	₩ (52,472)	₩ 751,955	₩ 2,910,470	₩ 6,283

(*) Including foreign currency transaction gain or loss and dividend income

14. Financial assets and liabilities

14-1) Fair value of financial instruments

Book value and fair value of financial assets and liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and due from banks	₩ 1,377,440	₩ 1,377,440	₩ 1,728,663	₩ 1,728,663
Financial assets designated at fair value through profit or loss	335,928	335,928	346,939	346,939
Trading assets	3,950,518	3,950,518	4,086,831	4,086,831
Derivative assets	241,777	241,777	190,887	190,887
Available-for-sale financial assets	21,137,969	21,137,969	22,682,619	22,682,619
Held-to-maturity financial assets	27,187,549	29,384,891	22,860,268	25,776,050
Loans	18,463,418	18,551,605	16,820,111	16,962,221
Other receivables	1,695,932	1,731,327	1,646,405	1,647,153
	₩ 74,390,531	₩ 76,711,455	₩ 70,362,723	₩ 73,421,363
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	₩ 1,503,864	₩ 1,503,864	₩ 1,612,755	₩ 1,612,755
Trading liabilities	427,848	427,848	210,660	210,660
Derivative liabilities	1,117,703	1,117,703	779,289	779,289
Borrowings	1,451,075	1,452,023	2,094,276	2,094,276
Other financial liabilities	1,412,401	1,451,861	1,473,273	1,475,581
	₩ 5,912,891	₩ 5,953,299	₩ 6,170,253	₩ 6,172,561

14-2) Financial instruments measured at the fair value

Financial instruments measured at the fair value as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets designated at fair value through profit or loss	₩ -	₩ 260,582	₩ 75,346	₩ 335,928
Trading assets	836,214	3,114,304	-	3,950,518
Derivative assets	9,331	165,014	67,432	241,777
Available-for-sale financial assets	767,532	16,032,798	4,337,639	21,137,969
	₩ 1,613,077	₩ 19,572,698	₩ 4,480,417	₩ 25,666,192
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	₩ -	₩ -	₩ 1,503,864	₩ 1,503,864
Trading liabilities	427,848	-	-	427,848
Derivative liabilities	15,525	944,799	157,379	1,117,703
	₩ 443,373	₩ 944,799	₩ 1,661,243	₩ 3,049,415

14. Financial assets and liabilities (cont'd)

14-2) Financial instruments measured at the fair value (cont'd)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets designated at fair value through profit or loss	₩ -	₩ 215,203	₩ 131,736	₩ 346,939
Trading assets	542,433	3,544,398	-	4,086,831
Derivative assets	17,888	120,040	52,959	190,887
Available-for-sale financial assets	905,309	17,635,216	4,142,094	22,682,619
	₩ 1,465,630	₩ 21,514,857	₩ 4,326,789	₩ 27,307,276
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	₩ -	₩ -	₩ 1,612,755	₩ 1,612,755
Trading liabilities	210,660	-	-	210,660
Derivative liabilities	30,862	660,142	88,285	779,289
	₩ 241,522	₩ 660,142	₩ 1,701,040	₩ 2,602,704

14-3) Changes in Level 3 fair value hierarchy for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016				
	Financial assets designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	Derivatives, Net	Available-for-sale financial assets	Total
Beginning balance	₩ 131,736	₩ (1,612,755)	₩ (35,326)	₩ 4,142,094	₩ 2,625,749
Purchases	53,711	(1,184,527)	(246)	802,842	(328,220)
Settlements	(112,508)	1,270,918	11,446	(460,467)	709,389
Total income:	2,407	22,500	(65,821)	1,971	(38,943)
Profit or loss	2,407	22,500	(65,821)	(1,399)	(42,313)
Other comprehensive income	-	-	-	3,370	3,370
Movement from Level 3				(148,801)	(148,801)
Ending balance	₩ 75,346	₩ (1,503,864)	₩ (89,947)	₩ 4,337,639	₩ 2,819,174

	2015				
	Financial assets designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	Derivatives, net	Available-for-sale financial assets	Total
Beginning balance	₩ 203,851	₩ (1,680,731)	₩ (85,395)	₩ 736,735	₩ (825,540)
Purchases	61,274	(1,395,733)	(23,940)	25,624	(1,332,775)
Settlements	(130,320)	1,432,189	60,111	(106,475)	1,255,505
Total income:	(3,069)	31,520	13,898	21,632	63,981
Profit or loss	(3,069)	31,520	13,898	145	42,494
Other comprehensive income	-	-	-	21,487	21,487
Transfers from/into Level 3	-	-	-	3,464,578	3,464,578
Ending balance	₩ 131,736	₩ (1,612,755)	₩ (35,326)	₩ 4,142,094	₩ 2,625,749

14. Financial assets and liabilities (cont'd)

14-4) Total gains or losses for the years ended December 31, 2016 and 2015 recognized in profit or loss and gains or losses relating to financial instruments in Level 3 held at the end of the reporting year are presented in the statement of comprehensive income as follows (Korean won in millions):

	2016	
	Total gains	Gains relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in Level 3	₩ (66,546)	₩ (42,313)

	2015	
	Total gains	Gains relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in Level 3	₩ 25,456	₩ 42,494

14-5) Valuation techniques and inputs used in measuring fair value of financial instruments classified as Level 2 as of December 31, 2016 are as follows:

Type of financial instrument	Valuation technique	Input variables
Financial assets:		
Financial assets designated at fair value through profit or loss	Discounted cash flow	Discount rate
Trading assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price, etc.
Derivative assets	Discounted cash flow, option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price, etc.
Available-for-sale financial assets	Discounted cash flow, dividend discount model	Interest rate, foreign exchange rate, stock price, etc.
Financial liabilities: Derivative liabilities	Discounted cash flow, option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price, etc.

14. Financial assets and liabilities (cont'd)

14-6) Information about significant unobservable inputs in measuring financial instruments categorized as Level 3 as of December 31, 2016 is as follows:

Type of financial instrument	Valuation Technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial assets: Financial assets designated at fair value through profit or loss	Price formulas, simulation	The volatility of the underlying asset	0% ~ 0.99%	Not standardized but depends on the structure of financial instrument.
		Correlations	-0.99 ~ 0.99	Not standardized but depends on the structure of financial instrument.
Derivative assets	Price formulas, Simulation, 1-factor Gaussian Copular model	The volatility of the underlying asset	0% ~ 99%	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.
		Correlations	-0.99 ~ 0.99	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.
Available-for-sale financial Assets	Discounted cash flow, dividend discount model, net asset method, residual income model	Growth rate	0% ~ 2.00%	A significant increase in growth rate would result in a higher fair value.
		Discount rate	2.41% ~ 21.76%	A significant increase in discount rate would result in a lower fair value.
		liquidation value rate	0%	A significant increase in liquidation value rate would result in a higher fair value.

14. Financial assets and liabilities (cont'd)

14-6) Information about significant unobservable inputs in measuring financial instruments categorized as Level 3 as of December 31, 2016 is as follows (cont'd):

Type of financial instrument	Valuation Technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset	0% ~ 0.99%	Depend on the structure of financial instrument
		Correlations	-0.99 ~ 0.99	Depend on the structure of financial instrument
Derivative liabilities	Price formulas, Simulation, 1-factor Gaussian Copular model, Hull & White model	The volatility of the underlying asset	0% ~ 99%	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.
		Correlations	-0.99 ~ 0.99	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.
		Discount rate	1.92%	A significant increase in interest rate would result in a higher fair value.

14. Financial assets and liabilities (cont'd)

14-7) For Level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income (Korean won in millions):

	Net income		Other comprehensive income	
	Favorable change	Unfavorable change	Favorable change	Unfavorable change
Financial assets:				
Financial assets designated at fair value through profit or loss (*1)	₩ 483	₩ (269)	₩ -	₩ -
Derivative assets (*1)	128	(1,555)	-	-
Available-for-sale financial assets (*2)	-	(11)	25,145	(13,545)
	₩ 611	₩ (1,835)	₩ 25,145	₩ (13,545)
Financial liabilities				
Financial liabilities designated at fair value through profit or loss (*1)	₩ 9,254	₩ (8,285)	₩ -	₩ -
Derivative liabilities (*1,3)	8,473	(9,612)	-	-
	₩ 17,727	₩ (17,897)	₩ -	₩ -

(*1) Change in fair value is calculated by increasing or decreasing the correlation of the fluctuation range of underlying assets price (-10%~10%) and volatility (-10%~10%).

(*2) Change in fair value is calculated by increasing or decreasing the correlation of permanent growth rate (0%~1% or -1% ~1%)), liquidation value rate (-1% ~1%) and discount rate (-1%~1%).

(*3) Change in fair value is calculated by increasing or decreasing the discount rate (-1% ~1%).

14. Financial assets and liabilities (cont'd)

14-8) The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from banks	₩ 1,257	₩ 1,376,183	₩ -	₩ 1,377,440
Held-to-maturity financial assets	8	29,384,883	-	29,384,891
Loans	-	-	18,551,605	18,551,605
Other receivables	-	-	1,731,327	1,731,327
	₩ 1,265	₩ 30,761,066	₩ 20,282,932	₩ 51,045,263
Financial liabilities:				
Borrowings	₩ -	₩ 28,012	₩ 1,424,011	₩ 1,452,023
Other financial liabilities	-	-	1,451,861	1,451,861
	₩ -	₩ 28,012	₩ 2,875,872	₩ 2,903,884

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from banks	₩ 1,582	₩ 1,727,081	₩ -	₩ 1,728,663
Held-to-maturity financial assets	39	25,776,002	9	25,776,050
Loans	-	-	16,962,221	16,962,221
Other receivables	-	121	1,647,032	1,647,153
	₩ 1,621	₩ 27,503,204	₩ 18,609,262	₩ 46,114,087
Financial liabilities:				
Borrowings	₩ -	₩ 25,640	₩ 2,068,636	₩ 2,094,276
Other financial liabilities	-	3	1,475,578	1,475,581
	₩ -	₩ 25,643	₩ 3,544,214	₩ 3,569,857

14. Financial assets and liabilities (cont'd)

14-9) Offsetting financial assets and financial liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016					
				Amounts not offset in the statements of financial position		
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Financial instruments	Cash collateral received	Net amounts
Financial assets						
Derivative assets	₩ 164,821	₩ -	₩ 164,821	₩ 91,228	₩ -	₩ 73,593
Receivables from KRX	191,162	143,497	47,665	-	-	47,665
	₩ 355,983	₩ 143,497	₩ 212,486	₩ 91,228	₩ -	₩ 121,258
Financial liabilities						
Securities sold	₩ 427,848	₩ -	₩ 427,848	₩ 427,848	₩ -	₩ -
Derivative liabilities	1,063,133	-	1,063,133	579,964	-	483,169
Bonds sold under repurchase agreements	998,155	-	998,155	998,155	-	-
Payables to KRX	149,455	143,497	5,958	-	-	5,958
	₩ 2,638,591	₩ 143,497	₩ 2,495,094	₩ 2,005,967	₩ -	₩ 489,127

	December 31, 2015					
				Amounts not offset in the statements of financial position		
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Financial instruments	Cash collateral received	Net amounts
Financial assets						
Derivative assets	₩ 190,887	₩ -	₩ 190,887	₩ 56,794	₩ -	₩ 134,093
Receivables from KRX	220,909	190,400	30,509	-	-	30,509
	₩ 411,796	₩ 190,400	₩ 221,396	₩ 56,794	₩ -	₩ 164,602
Financial liabilities						
Securities sold	₩ 210,660	₩ -	₩ 210,660	₩ 210,660	₩ -	₩ -
Derivative liabilities	779,289	-	779,289	779,289	-	-
Bonds sold under repurchase agreements	1,812,684	-	1,812,684	1,812,684	-	-
Payables to KRX	207,323	190,400	16,923	-	-	16,923
	₩ 3,009,956	₩ 190,400	₩ 2,819,556	₩ 2,802,633	₩ -	₩ 16,923

15. Investment properties

15-1) Investment properties as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 806,945	₩ -	₩ (6,578)	₩ 800,367
Buildings	461,357	(123,717)	(8,588)	329,052
Structures	8,803	(2,166)	(201)	6,436
	₩ 1,277,105	₩ (125,883)	₩ (15,367)	₩ 1,135,855

	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 820,493	₩ -	₩ (8,095)	₩ 812,398
Buildings	475,735	(114,746)	(11,399)	349,590
Structures	8,825	(1,993)	(214)	6,618
	₩ 1,305,053	₩ (116,739)	₩ (19,708)	₩1,168,606

15-2) Changes in investment properties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016						
	Beginning Balance	Acquisition	Disposal	Impairment Losses	Depreciation	Others (*)	Ending balance
Land	₩ 812,398	₩ -	₩ (6,026)	₩ (22)	₩ -	₩ (5,983)	₩ 800,367
Buildings	349,590	1	(12,448)	(1)	(11,095)	3,005	329,052
Structures	6,618	-	(9)	-	(208)	35	6,436
	₩1,168,606	₩ 1	₩ (18,483)	₩ (23)	₩ (11,303)	₩ (2,943)	₩ 1,135,855

	2015						
	Beginning Balance	Acquisition	Disposal	Impairment Losses	Depreciation	Others (*)	Ending balance
Land	₩ 838,501	₩ -	₩ (408)	₩ (3,858)	₩ -	₩ (21,837)	₩ 812,398
Buildings	360,567	84	(1,647)	(1,420)	(11,287)	3,293	349,590
Structures	6,814	-	(3)	-	(207)	14	6,618
Construction in progress	1,678	-	-	-	-	(1,678)	-
	₩ 1,207,560	₩ 84	₩ (2,058)	₩ (5,278)	₩ (11,494)	₩ (20,208)	₩ 1,168,606

(*) Other increase and decrease represent transfers to property and equipment or non-current assets held-for-sale.

15. Investment properties (cont'd)

15-3) Gain (loss) on investment property for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Rentals	₩ 99,293	₩ 97,377
Direct operating expenses for investment property:		
Generated rental income	31,567	29,239
Not generated rental income	1,538	2,285

15-4) The fair value of investment properties as of December 31, 2016 and 2015 are ₩1,508,619 million and ₩1,539,380 million, respectively. The fair value is estimated by qualified and independent valuation specialist. The fair value of investment properties is classified as level 3.

Valuation techniques and inputs used in measuring investment property as of December 31, 2016 are as follows:

Valuation technique	Input variables	Fair value measurement sensitivity to unobservable inputs
Cost approach, sales comparison, income approach	Discount rate, vacancy rate, operating expenses rate, etc.	A significant increase in discount rate, vacancy rate, operating expenses rate would result in a lower fair value.

15-5) Investment property pledged as collaterals as of December 31, 2016 and 2015 are as follows (Korean won in millions):

		December 31, 2016	December 31, 2015	Purpose
Doosan Heavy Industries & Construction	Book value.	₩ 104,781	₩ 104,632	Establishment of the right to collateral security
	Largest amount from the bond	117,203	117,229	

16. Property and equipment

16-1) Property and equipment as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 808,359	₩ -	₩ (7,414)	₩ 800,945
Buildings	678,297	(184,168)	(42,120)	452,009
Structures	20,084	(6,140)	(323)	13,621
Vehicles	2,649	(2,108)	-	541
Equipment	444,479	(387,767)	-	56,712
Construction in progress	616	-	-	616
Others	41,380	(19,620)	(373)	21,387
	₩1,995,864	₩(599,803)	₩(50,230)	₩1,345,831

	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 804,348	₩ -	₩ (6,996)	₩ 797,352
Buildings	681,699	(172,935)	(41,608)	467,156
Structures	20,086	(5,756)	(310)	14,020
Vehicles	2,839	(2,184)	-	655
Equipment	434,864	(388,008)	(1)	46,855
Construction in progress	60	-	-	60
Others	41,017	(17,059)	(363)	23,595
	₩ 1,984,913	₩ (585,942)	₩ (49,278)	₩ 1,349,693

16. Property and equipment (cont'd)

16-2) Changes in property and equipment for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016							
	Beginning balance	Acquisi-tions	Disposals	Impairment	Depreciation	Transfer from CIP	Other (*)	Ending balance
Land	₩ 797,352	₩ -	₩ (15)	₩ (52)	₩ -	₩ -	₩ 3,660	₩ 800,945
Buildings	467,156	164	-	(19)	(11,513)	1,908	(5,687)	452,009
Structures	14,020	-	-	-	(358)	-	(41)	13,621
Vehicles	655	209	(3)	-	(320)	-	-	541
Equipment	46,855	30,078	(776)	-	(22,621)	3,299	(123)	56,712
Construction in progress	60	5,871	-	-	-	(5,207)	(108)	616
Other	23,595	446	(84)	(10)	(2,562)	-	2	21,387
	₩ 1,349,693	₩ 36,768	₩(878)	₩ (81)	₩ (37,374)	₩ -	₩(2,297)	₩ 1,345,831

	2015							
	Beginning balance	Acquisi-tions	Disposals	Impairment	Depreciation	Transfer from CIP	Other (*)	Ending balance
Land	₩ 786,528	₩ 113	₩ (97)	₩ (2,748)	₩ -	₩ -	₩ 13,556	₩ 797,352
Buildings	454,407	491	(3,345)	(15,750)	(11,420)	51,012	(8,239)	467,156
Structures	14,323	-	(24)	-	(359)	100	(20)	14,020
Vehicles	884	246	-	-	(475)	-	-	655
Equipment	42,902	24,575	(1,064)	-	(20,906)	1,349	(1)	46,855
Construction in progress	4,784	46,227	-	-	-	(52,835)	1,884	60
Other	26,155	84	(374)	(3)	(2,641)	374	-	23,595
	₩ 1,329,983	₩71,736	₩ (4,904)	₩(18,501)	₩(35,801)	₩ -	₩ 7,180	₩1,349,693

(*) Other increase and decrease represent transfers to investment property or non-current assets held-for-sale.

16-3) The changes in asset revaluation of land accounted in other comprehensive income and policyholder's equity adjustments and deferred income tax liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Gain on revaluation of property and equipment	₩ 883,991	₩ 890,347
Transfer to retained earnings	(593)	(3,425)
Amount allocated into policyholders' equity adjustment	(160,341)	(162,136)
Amount allocated into deferred tax liabilities	(174,980)	(175,399)
Amount allocated into other comprehensive income	548,077	549,387

16. Property and equipment (cont'd)

16-4) Reserve for revaluation as of December 31, 2016 is as follows (Korean won in millions):

Revaluation date	Amount	
January 1, 1981	₩	165
April 1, 1989		66,223
April 1, 1999		23,900
		90,288
Deferred tax effect		(19,863)
	₩	70,425

As of April 1, 1999, a certain portion of the Controlling Company's property and equipment was revalued in accordance with the Korean Asset Revaluation Law. As a result, the revaluation increment amounting to ₩478,550 million was classified as asset revaluation reserve. Out of this amount, ₩47,800 million, excluding ₩430,750 million of participating policyholder's equity, was calculated as asset revaluation reserve. The asset revaluation reserve amounting to ₩23,900 million was transferred to capital stock during the year ended March 31, 2002. Out of ₩430,750 million, ₩64,000 million was transferred to the reserve for special participating policyholders' dividends and was paid during the year ended March 31, 2002, while ₩63,750 million was transferred to reserve for social contributions in policyholders' equity. ₩126,438 million out of ₩303,000 million was used for dividends to policyholders for the year ended March 31, 2001, while ₩176,562 million was transferred to reserve for participating policyholder's dividends for stabilization. ₩149,241 million, a part of reserve for participating policyholder's dividends for stabilization, was used for dividends to policyholders. The reserve for participating policyholder's dividends for stabilization amounts to ₩27,321 million.

₩65,923 million from the Group's reserve for revaluation incurred on April 1, 1989 will be used for future policyholder's dividend or deficit recovery. Therefore, it is excluded from the Group's equity when conducting security analysis.

17. Intangible assets

17-1) Intangible assets as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Goodwill	₩ 9,357	₩ -	₩ -	₩ 9,357
Software	118,669	(107,045)	-	11,624
Development cost	132,478	(116,783)	-	15,695
Memberships	14,888		(2,583)	12,305
Others	15,191	(11,700)	(11)	3,480
	₩ 290,583	₩ (235,528)	₩ (2,594)	₩ 52,461

	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Goodwill	₩ 9,357	₩ -	₩ -	₩ 9,357
Software	117,499	(105,126)	-	12,373
Development cost	132,896	(107,971)	-	24,925
Memberships	15,348	-	(3,208)	12,140
Others	14,982	(11,422)	-	3,560
	₩ 290,082	₩ (224,519)	₩ (3,208)	₩ 62,355

17-2) Changes in intangible assets for the years ended December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	2016						
	Beginning balance	Acquisitions	Disposals	Impairment	Depreciation	Others (*)	Ending balance
Goodwill	₩ 9,357	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 9,357
Software	12,373	3,739	-	-	(4,475)	(13)	11,624
Development cost	24,925	2,758	(178)	-	(12,957)	1,147	15,695
Memberships	12,140	1,187	(445)	(396)	-	(181)	12,305
Others	3,560	1,149	-	(9)	(255)	(965)	3,480
	₩ 62,355	₩ 8,833	₩ (623)	₩ (405)	₩ (17,687)	₩ (12)	₩ 52,461

	2015						
	Beginning balance	Acquisitions	Disposals	Impairment	Depreciation	Other	Ending balance
Goodwill	₩ 9,357	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 9,357
Software	12,524	4,150	-	-	(4,301)	-	12,373
Development cost	35,271	3,473	-	(5)	(14,576)	762	24,925
Memberships	12,979	990	(1,591)	(238)	-	-	12,140
Others	3,585	1,084	(78)	(14)	(268)	(749)	3,560
	₩ 73,716	₩ 9,697	₩ (1,669)	₩ (257)	₩ (19,145)	₩ 13	₩ 62,355

(*) Others include intangible assets classified as selling and administrative expenses and transfer of development costs for intangible assets under construction.

17. Intangible assets (cont'd)

17-3) Impairment assessment of goodwill

Management is reviewing sales performance based on types of regions and sales. Management of the Group allocates and manages goodwill by segments (company) as follows (Korean won in millions):

	Beginning balance	Increase	Impairment	Others	Ending balance
Kyobo Securities Co., Ltd.	₩ 1,756	₩ -	₩ -	₩ -	₩ 1,756
Kyobo Hottracks Co., Ltd.	7,600	-	-	-	7,600
	₩ 9,356	₩ -	₩ -	₩ -	₩ 9,356

Major assumptions, long-term growth rate and discount rate used in the calculation of value in use with regards to significant goodwill allocated to cash generating unit are as follows (Korean won in millions):

	Kyobo Securities Co., Ltd.				
	2017	2018	2019	2020	2021
Operating profit rate	9.26%	9.23%	9.19%	9.14%	9.08%
Growth rate					-
Discount rate					12.43%
Recoverable amount of cash-generating unit					777,646

For operating income, it was assumed that the company's profit can be generated by operating assets held at the end of 2015. For simplicity, volume of financial operating asset currently held by the company was assumed to be consistent. Operating expenses such as fee expenses, gain and loss on FVTPL financial instruments, interest expenses, loss on disposal and evaluation of loans, gain and loss on foreign exchange transaction, and selling and administrative expenses etc. were estimated based on the past results and future business plan. As a result of estimating operating revenue and expenses, the average yearly operating profit rate for the estimation period was 9.18%. Own capital expenses, calculated by using average beta and liability ratio of the companies in the same industry listed on KOSPI and KOSDAQ, were 12.43%. The Group calculated recoverable amount using DDM model.

	Kyobo Hottracks Co., Ltd.				
	2017	2018	2019	2020	2021
Operating profit rate	5.92%	4.68%	4.73%	4.00%	3.97%
Growth rate					-
Discount rate					9.76%
Recoverable amount of cash-generating unit					34,386

17. Intangible assets (cont'd)

17-3) Impairment assessment of goodwill (cont'd)

Estimated sales on a yearly basis was calculated by analysing and reviewing the Company's sales environment and middle and long-term sales plan based on sales results and data predicting future market volume up to December 2015. Sales costs were estimated based on the past performance results and future business plan. Selling and administrative expenses comprise of expenses related to sales, labour costs, expenses related to labour, fixed expenses, depreciation expenses and amortization expenses on intangible assets. As a result of estimating sales and sales costs, the average yearly operating profit rate for the estimation period was 4.66%, and weighted average capital expenses, calculated by using average beta and liability ratio of the companies in the same industry listed on KOSPI and KOSDAQ, were 9.76%. The Group calculated recoverable amount using DCF model.

18. Deferred acquisition costs

Changes in deferred acquisition costs for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016					
		Acquisition cost				
	Beginning balance	Generated	Amortization	Deferred acquisition costs	Amortization of deferred acquisition costs	Ending balance
Individual insurance	₩ 1,933,060	₩ 825,799	₩ (169,114)	₩ 656,685	₩(831,471)	₩ 1,758,274
Group insurance	26,154	13,125	1,498	14,623	(12,175)	28,602
	₩ 1,959,214	₩ 838,924	₩ (167,616)	₩ 671,308	₩(843,646)	₩ 1,786,876

	2015					
		Acquisition cost				
	Beginning balance	Generated	Amortization	Deferred acquisition costs	Amortization of deferred acquisition costs	Ending balance
Individual insurance	₩2,032,736	₩ 915,616	₩ (160,010)	₩ 755,606	₩ (855,282)	₩1,933,060
Group insurance	24,018	17,910	(4,188)	13,722	(11,586)	26,154
	₩2,056,754	₩ 933,526	₩ (164,198)	₩ 769,328	₩ (866,868)	₩1,959,214

19. Other assets

Other assets as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Reinsurance assets	₩	18,856	₩	18,414
Prepaid expense		17,051		11,941
Advance payments		37,463		5,370
Inventories		72,335		72,795
Others		600		747
	₩	146,305	₩	109,267

20. Assets held-for-sale

The Group does not have tangible assets and investment property held-for-sale as of December 31, 2016.

21. Liabilities under insurance contracts

21-1) The details of liabilities under insurance contracts as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				
	Pure Endowment	Death	Endowment	Group	Total
Premium reserve	₩ 25,740,084	₩ 30,159,305	₩ 4,471,015	₩ 430,215	₩ 60,800,619
Unearned premium reserve	214	2,080	3	4,666	6,963
Reserve for outstanding claims	755,715	805,303	46,152	61,725	1,668,895
Reserve for participating policyholder's dividend	395,967	6,428	4,252	2,934	409,581
	26,891,980	30,973,116	4,521,422	499,540	62,886,058
Guarantee reserve					713,392
Dividends reserve for participating policyholder's income					24,702
Reserve for losses on dividend insurance contract					43,377
					₩ 63,667,529

	December 31, 2015				
	Pure Endowment	Death	Endowment	Group	Total
Premium reserve	₩ 24,714,172	₩ 27,975,088	₩ 3,958,111	₩ 492,778	₩ 57,140,149
Unearned premium reserve	327	2,523	3	4,478	7,331
Reserve for outstanding claims	717,093	759,757	48,055	45,203	1,570,108
Reserve for participating policyholder's dividend	384,891	9,161	4,356	5,375	403,783
	25,816,483	28,746,529	4,010,525	547,834	59,121,371
Guarantee reserve					486,800
Dividends reserve for participating policyholder's income					11,675
Reserve for losses on dividend insurance contract					31,812
					₩ 59,651,658

21. Liabilities under insurance contracts (cont'd)

21-2) Changes in liabilities under insurance contracts for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		
	Beginning balance	Increase (decrease)	Ending Balance
Premium reserve	₩ 57,140,149	₩ 3,660,470	₩ 60,800,619
Unearned premium reserve	7,331	(368)	6,963
Reserve for outstanding claims	1,570,107	98,788	1,668,895
Reserve for participating policyholder's dividend	403,783	5,798	409,581
Guarantee reserve	486,800	226,592	713,392
Reserve for policyholder's profit dividend	11,675	13,027	24,702
Reserve for losses on dividend insurance contract	31,813	11,564	43,377
	₩ 59,651,658	₩ 4,015,871	₩ 63,667,529

	2015		
	Beginning balance	Increase (decrease)	Ending Balance
Premium reserve	₩ 53,481,830	₩ 3,658,319	₩ 57,140,149
Unearned premium reserve	7,943	(612)	7,331
Reserve for outstanding claims	1,495,984	74,123	1,570,107
Reserve for participating policyholder's dividend	404,416	(633)	403,783
Guarantee reserve	330,551	156,249	486,800
Reserve for policyholder's profit dividend	3,503	8,172	11,675
Reserve for losses on dividend insurance contract	18,756	13,057	31,813
	₩ 55,742,983	₩ 3,908,675	₩ 59,651,658

22. Policyholder's equity adjustments

Policyholder's equity adjustments as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Reserve for policyholder dividend stabilization	₩ 27,322	₩ 30,729
Fund for public projects	99,466	99,466
Gain on valuation of available-for-sale financial assets	142,579	249,321
Gain on valuation of held-to-maturity financial assets	34,257	26,195
Loss on valuation of investment in associates	(260)	(689)
Gain on revaluation of property and equipment	160,341	162,137
	₩ 463,705	₩ 567,159

23. Liability Adequacy Tests (LAT)

23-1) Application of LAT

Liability Adequacy Tests were performed on the premium reserve, reserve for unearned premium and guarantee reserve as of December 31, 2016 and 2015. The premium reserve considered the amount of net premium reserve less deferred acquisition costs, where appropriate, in accordance with Article 6-3 of Regulation on Supervision of Insurance Business Act.

23-2) Calculation of LAT

By conducting Liability Adequacy Tests, the Group calculates a valuation basis by estimating all future cash flows that may arise from insurance contracts currently held, and if the value exceeds the book value of a reserve appropriated for the Liability Adequacy Tests, the Group adds an additional amount to the reserve.

23-3) The assumptions and calculation methods

The assumptions and calculation methods used in the calculation of current estimates for future cash flows in the Liability Adequacy Tests as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Discount rate	2.13%~8.64%	Average 4.00%
Risk premium rate	19%~259%	12%~233%
Surrender ratio	0.3%~72%	1%~52%

- Discount rate: Discount rate curve presented by Financial Supervisory Service plus risk discount rate calculated by the Company based on historical information.
- Mortality and Morbidity rate: Ratio of premium paid to risk premium based on past statistics of recent 5 years or more by product type, time insurance is sold and lapse of time.

23. Liability Adequacy Tests (LAT) (cont'd)

23-3) The assumptions and calculation methods (cont'd)

- Lapse and surrender rate: Ratio of earned premium for surrender to earned premium based on past statistics of recent 5 years or more by product type, channel type, payment method type and by lapse of time.

Acquisition costs: Ratio of actual acquisition cost to planned acquisition cost based on past statistics of recent 1 year by product type.

Maintenance fee: Maintenance fee based on past statistics of recent 1 year by insurance and insurance contracts.

23-4) Result of LAT

The result of LAT as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		
	Reserve for test	LAT base	Premium surplus(loss)
Participating :			
Interest rate-fixed	₩ 11,401,744	₩16,519,103	₩ (5,117,359)
Interest rate-linked	5,161,629	4,938,036	223,593
Non- participating :			
Interest rate-fixed	16,778,887	20,153,511	(3,374,624)
Interest rate-linked and investment-linked	25,681,247	14,179,901	11,501,346
	₩ 59,023,507	₩55,790,551	₩ 3,232,956

	December 31, 2015		
	Reserve for test	LAT base	Premium surplus(loss)
Participating :			
Interest rate-fixed	₩ 11,447,930	₩16,085,252	₩ (4,637,322)
Interest rate-linked	4,783,484	4,650,639	132,845
Non- participating :			
Interest rate-fixed	16,220,293	19,411,118	(3,190,825)
Interest rate-linked and investment-linked	22,736,558	11,725,059	11,011,499
	₩ 55,188,265	₩51,872,068	₩ 3,316,197

The Group did not record additional reserve since the surplus exceeded the deficit based on the result of LAT.

24. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Equity-linked securities sold	₩	174,267	₩	202,571
Derivatives-combined securities sold		347,463		541,239
Derivatives-combined debt sold		982,338		869,079
The settled amounts of valuation		(204)		(134)
	₩	1,503,864	₩	1,612,755

25. Trading liabilities

Trading liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Securities sold				
Equity	₩	59,262	₩	19,153
Debt		368,586		191,507
	₩	427,848	₩	210,660

26. Borrowings

Borrowings as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	Creditors	December 31, 2016		December 31, 2015	
Call money	KB, Kookmin Bank	₩	142,300	₩	-
Bonds sold under repurchase agreements	Public offerings		997,207		1,812,684
Subordinated debt securities issued	Dongbu Insurance Co., Ltd. etc.		170,174		170,147
Borrowings from Korea Securities Finance Co., Ltd.	Korea Securities Finance Co., Ltd.		113,383		65,805
Borrowings for general purpose	Woori Bank, etc.		4,411		15,740
Borrowings for equipment	KB, Kookmin Bank		23,600		9,900
Commercial paper	Samsung Asset Management Co., Ltd. etc.		-		20,000
		₩	1,451,075	₩	2,094,276

27. Other financial liabilities

Other financial liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Insurance payables :		
Dormant policies	₩ 41,563	₩ 37,833
Insurance settlement adjustments	924	997
Reinsurance payables	44,137	39,010
	86,624	77,840
Accounts payable	382,116	495,261
Accrued expenses	275,609	270,858
Leasehold deposits	143,633	141,747
Present value discount	(8,304)	(11,076)
Trust accounts liabilities	5,518	7,115
Customers' deposits	418,548	373,102
Securities deposit received	11,148	8,288
Others	97,509	110,138
	₩ 1,412,401	₩ 1,473,273

28. Provisions

28-1) Changes in provisions for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016			
	Provision for restoration	Litigation	Others (*)	Total
Beginning balance	₩ 16,464	₩ 812	₩ 9,665	₩ 26,941
Increase	1,528	52	216	1,796
Provision used	(1,316)	-	411	(905)
Provision (reversal)	(27)	(399)	(8,536)	(8,962)
Ending balance	₩ 16,649	₩ 465	₩ 1,756	₩ 18,870

28. Provisions (cont'd)

28-1) Changes in provisions for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

(*) Other provisions of ₩5,531 million transferred to reserve for outstanding insurance claims by the suicide in the Accidental Death Special Agreement as the Group has lost a case in Supreme Court ruling on May 12, 2016 and provisions of ₩3,000 million calculated in accordance to Information Protection Act transferred to voluntary reserve.

	2015							
	Provision for restoration costs		Litigation		Others		Total	
Beginning balance	₩	16,025	₩	815	₩	6,299	₩	23,139
Increase		2,041		-		4,261		6,302
Provision used		(1,476)		-		(1,560)		(3,036)
Provision (reversal)		(126)		(3)		665		536
Ending balance	₩	16,464	₩	812	₩	9,665	₩	26,941

28-2) Expected timing of economic benefit out flow as of December 31, 2016 is as follow (Korean won in millions):

	December 31, 2016									
	Not later than 1 year		1 ~ 3 years		3 ~ 5 years		Later than 5 years		Total	
Provision for restoration costs	₩	10,104	₩	5,935	₩	420	₩	190	₩	16,649
Litigation		414		51		-		-		465
Other		1,653		103		-		-		1,756
	₩	12,171	₩	6,089	₩	420	₩	190	₩	18,870

29. Liabilities for defined benefit obligations

The Group operates defined benefit plan based on compensation for pension for the employees and the period of providing services. The Group has trusted the plan assets of defined benefit obligations at Kookmin Bank and others.

29-1) Defined benefit plan assets and liabilities as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Present value of defined benefit obligation	₩	272,262	₩	279,289
Fair value of plan assets		(246,332)		(217,268)
Recognized liabilities for defined benefit obligation	₩	25,930	₩	62,021

29. Liabilities for defined benefit obligations (cont'd)

29-2) Changes in the present value of defined benefit obligation for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Beginning balances	₩ 279,289	₩ 253,648
Current service costs	41,805	41,761
Interest expenses	6,818	7,437
Remeasurements		
Financial assumptions	(19,706)	10,605
Demographic assumptions	1,347	(95)
Experience adjustments	(6,748)	(7,256)
Benefits paid by the plan	(19,978)	(23,189)
Past service costs	(2,064)	(3,622)
Reduction and liquidation	(8,501)	-
Ending balances	₩ 272,262	₩ 279,289

29-3) Changes in the fair value of plan assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Beginning balance	₩ 217,268	₩ 189,130
Interest income	5,155	5,379
Remeasurements	(1,237)	(1,077)
Contributions paid into the plan	44,076	46,686
Benefits paid by the plan	(18,711)	(22,660)
Transfers from (into) affiliate	-	-
Others	(219)	(190)
Ending balance	₩ 246,332	₩ 217,268

29-4) Plan assets as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Amount	Ratio	Amount	Ratio
Time deposits	₩ 145,657	59.13%	₩ 138,104	63.56%
Equity securities	6,793	2.76%	6,467	2.98%
Debt securities	60,125	24.41%	46,707	21.50%
Property	63	0.02%	62	0.03%
Investment fund	33,694	13.68%	25,928	11.93%
	₩ 246,332	100.00%	₩ 217,268	100.00%

29. Liabilities for defined benefit obligations (cont'd)

29-5) Actuarial assumptions as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Discount rate (*)	2.00%~3.00%	2.10% ~ 3.10%
Future salary increasing rate	2.30%~5.50%	2.50% ~ 5.50%

(*) Considering the timing of the payments of retirement benefits, the Group applied a rate of return of debenture bonds with a rating of AA+.

29-6) Sensitivity analysis

Sensitivity analysis of the present value of defined benefit obligation as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016			
	1% Decrease		1% Increase	
Discount rate	₩	57,673	₩	(7,040)
Future salary increasing rate		(6,625)		56,516

30. Other liabilities

Other liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Advance receipts	₩	11,142	₩	8,524
Unearned income		21,402		24,846
Withholding		45,253		46,336
Value added tax withhold		6,022		5,719
Unearned insurance premium		168,055		157,463
Others		100		99
	₩	251,974	₩	242,987

31. Derivatives

31-1) The notional amounts of derivatives as of December 31, 2016 and 2015 are as follows (Korean won in millions):

1) Exchange traded

	December 31, 2016	December 31, 2015
Interest rates related:		
Interest rate futures	₩ 723,591	₩ 261,581
Equity related:		
Stock index futures	175,218	152,618
Stock index options	9,710	12,173
	184,928	164,791
Currency related:		
Dollar futures	-	16,751
Euro futures	17,303	-
	17,303	16,751
Commodity related:		
Overseas commodity futures	64,731	68,276
	₩ 990,553	₩ 511,399

31. Derivatives (cont'd)

31-1) The notional amounts of derivatives as of December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

2) Over the counter

	December 31, 2016	December 31, 2015
Hedge related:		
Currency related:		
Currency forward	₩ 3,421,946	₩ 1,738,137
Currency swaps	8,741,413	5,913,683
	12,163,359	7,651,820
Interest rates related:		
Interest rate swaps	533	-
	12,163,892	7,651,820
Non-hedge related:		
Currency related:		
Currency forward	1,962,042	1,394,713
Currency swaps	7,444,696	7,486,995
	9,406,738	8,881,708
Interest rates related:		
Interest rate swaps	4,493,482	3,496,884
Interest rate options	106,255	133,440
	4,599,737	3,630,324
Equity related:		
Stock index options	95,589	135,562
Stock swaps	165,471	298,335
Conversion rights	866	866
Others	630,608	656,817
	892,534	1,091,580
Credit related:		
Credit swaps	10,448,986	7,543,980
Commodity related:		
Oversea commodity forward	64,732	68,276
	25,412,727	21,215,868
	₩ 37,576,619	₩ 28,867,688

31. Derivatives (cont'd)

31-2) Fair values of derivative instruments as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Hedge related:				
Currency related:				
Currency forwards	₩ 2,083	₩ 205,903	₩ 5,019	₩ 86,655
Currency swaps	6,485	525,937	5,018	388,645
	8,568	731,840	10,037	475,300
Interest rates related:				
Interest rate swaps	-	3	-	-
	8,568	731,843	10,037	475,300
Non-hedge related:				
Currency related:				
Currency forwards	9,790	88,542	11,555	50,666
Currency swaps	38,286	94,824	42,574	109,249
	48,076	183,366	54,129	159,915
Interest rates related:				
Interest rate swaps	18,064	80,603	15,141	20,698
Interest rate options	-	654	-	23,438
	18,064	81,257	15,141	44,136
Equity related:				
Stock index options	17,798	20,831	25,712	51,293
Equity linked warrant	-	-	45	189
Conversion rights	2,495	-	6,969	-
Others	43,961	74,154	24,004	28,403
	64,254	94,985	56,730	79,885
Credit related:				
Credit swaps	96,543	20,152	36,924	2,409
Commodity related:				
Commodity swap	6,272	6,100	17,926	17,644
	233,209	385,860	180,850	303,989
	₩ 241,777	₩ 1,117,703	₩ 190,887	₩ 779,289

31. Derivatives (cont'd)

31-3) Gain or loss on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016			
	Net income		Accumulated other comprehensive Income (*)	
	Gain	Loss	Gain	Loss
Hedge related:				
Currency related:				
Currency forwards	₩ 2,422	₩ 158,547	₩ 5,835	₩ 5,762
Currency swaps	3,453	323,069	74,119	6,101
	5,875	481,616	79,953	11,863
Interest rates related:				
Interest rate swaps	-	-	-	3
	5,875	481,616	79,953	11,866
Non-hedge related:				
Currency related:				
Currency forwards	9,722	46,118	-	-
Currency swaps	24,344	18,166	-	-
	34,066	64,284	-	-
Interest rates related:				
Interest rate swaps	17,943	7,698	-	-
Interest rate options	117	521	-	-
	18,060	8,219	-	-
Equity related:				
Stock index options	2,596	1,783	-	-
Equity linked warrant	-	-	-	-
Conversion rights	795	-	-	-
Others	12,259	79,484	-	-
	15,650	81,267	-	-
Credit related:				
Credit swaps	75,560	34,605	-	-
Commodity related				
Commodity Swap	2,123	4,049	-	-
	145,459	192,423	-	-
Adjustment of credit risk	1,644	945	6	-
	₩ 152,978	₩ 674,984	₩ 79,960	₩ 11,866

31. Derivatives (cont'd)

31-3) Gain or loss on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

	2015			
	Net income		Accumulated other comprehensive Income (*)	
	Gain	Loss	Gain	Loss
Hedge related:				
Currency related:				
Currency forward	₩ 2,965	₩ 69,455	₩ 4,909	₩ 84
Currency swaps	2,982	299,153	38,184	11,182
	5,947	368,608	43,093	11,266
Non-hedge related:				
Currency related:				
Currency forward	11,713	43,429	-	-
Currency swaps	33,595	53,941	-	-
	45,308	97,370	-	-
Interest rates related:				
Interest rate swaps	6,234	6,601	-	-
Interest rate options	276	301	-	-
	6,510	6,902	-	-
Equity related:				
Stock index options	4,278	6,111	-	-
Equity linked warrant	235	91	-	-
Conversion rights	3,447	-	-	-
Others	23,100	11,995	-	-
	31,060	18,197	-	-
Credit related:				
Credit swaps	22,525	21,837	-	-
Commodity related:				
Commodity swap	12,861	4,935	-	-
	118,264	149,241	-	-
Adjustment of credit risk	(934)	(534)	-	-
	₩ 123,277	₩ 517,315	₩ 43,093	₩ 11,266

(*) Accumulated other comprehensive income caused by cash flow hedge accounting before reflecting income tax effect.

31. Derivatives (cont'd)

31-4) Gain or loss on hedging instruments and hedged items that apply fair value hedges for the years ended December 31, 2016 are as follows (Korean won in millions):

	2016		2015	
	Gain	Loss	Gain	Loss
Hedged items	₩ 60,815	₩ 884	₩ 106,110	₩ 2,196
Hedging instruments	2,618	58,742	3,536	93,840

31-5) Cash flow hedges

Due to various reasons (i.e. currency swap contracts for cash flow hedges have reached maturity), the effective portion of hedges for the years ended December 31, 2016 and 2015 realized as gain on valuation of derivative instruments amount to ₩1,977 million and ₩5,684 million, respectively, and loss on valuation of derivative instruments amount to ₩3,131 million and ₩8,799 million, respectively. Meanwhile, the ineffective portion of cash flow hedges recognized as current gain and loss were ₩5 million and ₩3 million, respectively, for the years ended December 31, 2016 and 2015.

The maximum expected expiration date of which the Group's cash flows are exposed to fluctuation risk is February 1, 2027 based on derivative instrument contract to which cash flow hedges apply.

32. Separate accounts

32-1) Assets and liabilities of separate account as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Insurance contract and investments contract with discretionary participation feature:				
Retirement insurance	₩ 115,153	₩ 115,153	₩ 126,210	₩ 126,210
Variable life insurance	13,997,836	14,000,541	13,391,243	13,398,913
	14,112,989	14,115,694	13,517,453	13,525,123
Investments contract with no discretionary participation feature:				
Retirement insurance	2,050	2,042	2,196	2,176
Retirement pension	4,069,102	4,063,270	3,929,155	3,903,498
	4,071,152	4,065,312	3,931,351	3,905,674
Separate accounts receivable	-	(52,497)	-	(79,330)
Separate accounts payable	(510,670)	-	(578,125)	-
	₩ 17,673,471	₩ 18,128,509	₩ 16,870,679	₩ 17,351,467

32. Separate accounts (cont'd)

32-2) Separate accounts in the statements of financial position as of December 31, 2016 and 2015 are as follows (Korean won in millions):

1) Insurance contract and investments contract with discretionary participation feature

		December 31, 2016		December 31, 2015
Assets:				
Cash and due from banks	₩	456,276	₩	350,797
Trading assets		12,936,199		12,487,420
Loans		395,797		313,609
Other assets		182,477		228,851
General account credits		144,945		144,446
		14,115,694		13,525,123
Consolidated adjustments		(2,705)		(7,670)
Total after consolidated adjustment	₩	14,112,989	₩	13,517,453
Liabilities :				
Other liabilities	₩	50,328	₩	57,918
General account debits		32,821		59,489
		83,149		117,407
Reserve for policy holders		14,032,545		13,407,716
Total liabilities and reserve and accumulated other comprehensive income	₩	14,115,694	₩	13,525,123

32. Separate accounts (cont'd)

32-2) Separate accounts in the statements of financial position as of December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

2) Investments contract with no discretionary participation feature:

	December 31, 2016		December 31, 2015	
Assets:				
Cash and due from banks	₩	93,728	₩	268,389
Trading assets		195,056		265,334
Available-for-sale financial assets		3,249,699		2,873,878
Held-to-maturity financial assets		78,335		46,900
Loans		159,750		89,815
Other assets		34,905		39,762
General account credits		365,726		433,680
		4,177,199		4,017,758
Consolidated adjustments		(106,047)		(86,407)
Total after consolidated adjustment	₩	4,071,152	₩	3,931,351
Liabilities:				
Other liabilities	₩	45,676	₩	50,043
General account debits		19,676		19,841
		65,352		69,884
Reserve for policy holders		3,999,960		3,835,790
Accumulated other comprehensive income		6,396		26,273
		4,006,356		3,862,063
Total liabilities and reserve and accumulated other comprehensive income	₩	4,071,708	₩	3,931,947

32. Separate accounts (cont'd)

32-3) Revenues and expenses of separate accounts for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

1) Insurance contract and investments contract with discretionary participation feature:

	2016		2015	
	Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:				
Premium income	₩ -	₩ 2,869,688	₩ 9	₩ 2,954,649
Interest income	1,339	144,840	1,974	152,519
Dividends income	225	70,643	928	61,085
Gain on securities	440	815,914	349	682,763
Gain on foreign currency transaction	-	668	-	234
Gain on derivatives	-	133,800	-	177,999
Other income	-	32,927	60	39,765
	₩ 2,004	₩ 4,068,480	₩ 3,320	₩ 4,069,014
Expenses:				
Increase(decrease) in policy reserves	₩ (11,153)	₩ 752,923	₩ (11,917)	₩ 976,086
Insurance claims paid	12,086	1,842,878	13,780	1,552,492
Minimum guarantee fee	-	65,952	-	59,367
Separate account commission	735	727,144	793	719,323
Commission fee	-	38,548	-	39,841
Reversal of loan losses	-	42	-	(14)
Loss on securities	336	498,774	664	545,003
Loss on foreign currency transaction	-	189	-	87
Loss on transaction of derivatives	-	142,019	-	176,829
Other expenses	-	11	-	-
	₩ 2,004	₩ 4,068,480	₩ 3,320	₩ 4,069,014

32. Separate accounts (cont'd)

32-3) Revenues and expenses of separate accounts for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

2) Investments contract with no discretionary participation feature:

	2016		2015	
	Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:				
Interest income	₩ 80,916	₩ 433	₩ 79,209	₩ 544
Dividend income	2,029	78	3,445	80
Gain on securities	21,482	2,590	19,533	1,770
Gain on foreign currency transaction	270	-	229	-
Gain on transaction of derivatives	3,216	296	832	328
Other income	16,184	2	23,541	2
	124,097	3,399	126,789	2,724
Consolidated adjustments	(2,136)	-	(2,108)	-
	₩ 121,961	₩ 3,399	₩ 124,681	₩ 2,724
Expenses:				
Interest expenses of withholdings	₩ 67,720	₩ 1,526	₩ 65,697	₩ 963
Separate account commission	29,224	111	30,395	(599)
Commission fee	31	102	16	118
Provision for loan losses	131	-	44	-
Loss on securities	8,806	1,314	7,849	1,973
Loss on foreign currency transaction	2,762	-	219	-
Loss on transaction of derivatives	15,149	346	22,004	269
Other expenses	274	-	565	-
	124,097	3,399	126,789	2,724
Consolidated adjustments	(2,136)	-	(2,108)	-
	₩ 121,961	₩ 3,399	₩ 124,681	₩ 2,724

32-4) In accordance with the regulations under Trust Business Act, the Group separately accounts for the trust assets from existing assets, and recognizes trust commission fee as operating revenue when receiving trust commission fee. As of December 31, 2016, the total amount of the trust funds under contract with the Group is ₩23,415,949 million.

33. Equity

33-1) Equity as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Capital stock:		
Common stock	₩ 102,500	₩ 102,500
Capital surplus:		
Share premium	359,937	359,937
Asset revaluation surplus	70,425	70,425
Others	5,382	6,260
	435,744	436,622
Capital adjustments		
Loss on valuation of investments using equity method	(15,995)	(8,995)
Others	(393)	(11,055)
	(16,388)	(20,050)
Accumulated other comprehensive income, net of tax:		
Gain on valuation of available-for-sale financial assets	372,103	519,249
Gain on valuation of derivatives	51,615	23,815
Loss (gain) on valuation of investment of associates	(1,130)	65
Other comprehensive income of separate account	4,848	19,915
Gain on valuation of held-for-maturity financial assets	51,423	37,011
Gain on revaluation of property and equipment	548,077	549,387
Foreign currency translation adjustments for foreign operations	495	(122)
Remeasurement loss related to defined benefit plan	(12,581)	(34,121)
	1,014,850	1,115,199
Retained earnings:		
Legal reserve	51,250	51,250
Regulatory reserve for loan loss	113,176	100,715
Retained earnings	5,794,188	5,399,946
Voluntary reserve	3,000	-
	5,961,614	5,551,911
Non-controlling interests	364,221	337,227
	₩ 7,862,541	₩ 7,523,409

33-2) Capital stock

Capital stock as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Number of authorized shares	100,000,000 shares	100,000,000 shares
Par value per share in Korean won	₩ 5,000	₩ 5,000
Number of issued common stocks outstanding	20,500,000 shares	20,500,000 shares
Capital stock	₩ 102,500	₩ 102,500

33. Equity (cont'd)

33-3) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016								
	Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of investment of associates	Other comprehensive income of separate account	Gain (loss) on valuation of held-for-maturity financial assets	Gain on revaluation of property and equipment	Foreign currency translation adjustments for foreign operations	Remeasurement loss related to defined benefit plan	Total
Beginning balance	₩ 519,249	₩ 23,815	₩ 65	₩ 19,915	₩ 37,011	₩ 549,387	₩ (122)	₩(34,121)	₩1,115,199
Fair value evaluation	(207,274)	37,662	42	(13,552)	-	-	-	23,870	(159,252)
Realization of income	(53,294)	(1,056)	-	(6,325)	(12,065)	(1,195)	-	-	(73,935)
Conversion to retained earnings	-	-	-	-	-	593	-	-	593
Effect of exchange rate difference	(99)	-	-	-	-	-	2,116	-	2,017
Policyholder's equity adjustment (*)	106,742	-	949	-	(8,062)	1,795	-	-	101,424
Deferred income tax effects (*)	46,978	(8,806)	382	4,810	(4,601)	419	(493)	(7,954)	30,735
Non-consolidated adjustments	353	-	(7)	-	-	-	767	(48)	1,065
Others	(40,552)	-	(2,561)	-	39,140	(2,922)	(1,773)	5,672	(2,996)
Ending balance	₩ 372,103	₩ 51,615	₩ (1,130)	₩ 4,848	₩ 51,423	₩ 548,077	₩ 495	₩(12,581)	₩1,014,850

	2015								
	Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of investment of associates	Other comprehensive income of separate account	Gain (loss) on valuation of held-for-maturity financial assets	Gain on revaluation of property and equipment	Foreign currency translation adjustments for foreign operations	Remeasurement loss related to defined benefit plan	Total
Beginning balance	₩ 517,425	₩ 14,460	₩ 122	₩ 23,971	₩ 41,907	₩ 509,189	₩ (106)	₩ 9,141	₩1,116,109
Fair value evaluation	99,805	34,172	18	4,939	-	-	(854)	1,106	139,186
Realization of income	(87,283)	(21,761)	-	(10,291)	(12,363)	-	-	-	(131,698)
Conversion to retained earnings	-	-	-	-	-	(3,480)	-	-	(3,480)
Effect of exchange rate difference	-	-	-	-	-	-	239	-	239
Policyholder's equity adjustment (*)	18,110	-	2,353	-	(11.336)	12,568	-	-	21,695
Deferred income tax effects (*)	(3,939)	(3,056)	(6,909)	1,296	1,563	(2,200)	203	(245)	(13,287)
Non-Consolidated adjustments	1,011	-	(7)	-	-	41,090	315	(40,416)	1,993
Others	(25,880)	-	4,488	-	17,240	(7,780)	81	(3,707)	(15,558)
Ending balance	₩ 519,249	₩ 23,815	₩ 65	₩ 19,915	₩ 37,011	₩ 549,387	₩ (122)	₩ (34,121)	₩1,115,199

(*) Allocation to policyholder's equity adjustment and tax effect of comprehensive income in the reporting period.

33. Equity (cont'd)

33-4) Retained earnings

1) Legal reserve

Legal reserve is restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the Group is required 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 stocks in connection with a free issue of shares

2) Regulatory reserve for loan loss

When allowances for loan losses based on KIFRS for the assets subject to classification by asset soundness (such as loans, insurance receivables, receivables, accrued revenue, suspense payments, bills receivables, etc.) in accordance with Regulations on Supervision of Insurance Business are less than the total of the reserves required by the Article 7-4 of Regulations on Supervision of Insurance Business, the difference is reserved as regulatory reserve for loan losses. The limit on regulatory reserve for loan losses is the amount subtracting reserves required by the Insurance Business Act and other laws from retained earnings.

The regulatory reserve for loan losses is, in nature, an arbitrary reserve for retained earnings. When there is unappropriated deficits, regulatory reserve for loan losses are reserved after the deficits are appropriated. When the amount previously reserved for regulatory reserve for loan losses exceeds the amount of regulatory reserve for loan losses to be reserved as of the closing date, the reversal of the excess amount is allowed.

① Regulatory reserve for loan losses as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Regulatory reserve for loan losses accumulated	₩	113,176	₩	100,715
To be accumulated (reversed)		10,366		12,461
Balance	₩	123,542	₩	113,176

② Provision for regulatory reserve for loan losses and income adjusted for regulatory reserve are as follows (Korean won in millions):

	2016		2015	
Income for the period	₩	514,494	₩	607,850
Provision for regulatory reserve for loan		(10,366)		(12,461)
Income adjusted for regulatory reserve (*)	₩	504,128	₩	595,389
Basic earnings per share adjusted for regulatory reserve in Korean won	₩	24,592	₩	29,043

33. Equity (cont'd)

33-4) Retained earnings (cont'd)

(*) Net income adjusted for regulatory reserve is non-KIFRS financial information. The adjustment amount is calculated under the assumption that provision for regulatory reserve is reflected on the current net income without considering policyholders' equity adjustment and deferred tax effect.

34. Premium income

Premium income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Individual insurance:				
Pure endowment	₩	2,266,160	₩	2,419,803
Death		4,506,381		4,296,618
Endowment		1,013,438		1,006,657
		7,785,979		7,723,078
Group insurance:				
Pure protection		103,180		100,637
Savings		11,587		11,912
		114,767		112,549
	₩	7,900,746	₩	7,835,627

35. Reinsurance ceded

35-1) Reinsurance assets and liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Reinsurance account receivable	₩	49,568	₩	46,318
Reinsurance assets:				
Reserve for unearned premium		4,011		3,787
Reserve for outstanding claims		3,063		2,827
Incurred but not reported		11,782		11,800
		18,856		18,414
	₩	68,424	₩	64,732
Reinsurance accounts payable	₩	44,137	₩	39,010

35. Reinsurance ceded (cont'd)

35-2) Transactions with reinsurance companies incurred for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016							
	Reinsurance Expense		Reinsurance claim revenue		Reinsurance commission revenue		Profit (loss) from reinsurance asset	
Individual insurance:								
Domestic	₩	93,535	₩	63,981	₩	26,222	₩	487
Overseas		1,563		864		453		34
		95,098		64,845		26,675		521
Group insurance:								
Domestic		1,164		1,459		-		(79)
	₩	96,262	₩	66,304	₩	26,675	₩	442

	2015							
	Reinsurance Expense		Reinsurance claim revenue		Reinsurance commission revenue		Profit (loss) from reinsurance asset	
Individual insurance:								
Domestic	₩	88,248	₩	58,010	₩	25,671	₩	(500)
Overseas		1,484		779		494		(3)
		89,732		58,789		26,165		(503)
Group insurance:								
Domestic		1,145		1,409		-		(51)
	₩	90,877	₩	60,198	₩	26,165	₩	(554)

36. Interest income

Interest income for the years ended December 31, 2016 and 2015 and are as follows (Korean won in millions):

	2016		2015	
Cash and due from banks	₩	25,625	₩	28,625
Trading assets		73,771		85,691
Available-for-sale financial assets		489,243		575,599
Held-to-maturity financial assets		979,282		882,266
Loans		949,737		983,169
Derivatives		106,574		87,898
Others		5,533		6,794
	₩	2,629,765	₩	2,650,042

37. Gain on valuation and disposal of financial instruments

Gain on valuation and disposal of financial instruments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Financial assets designated at fair value through profit or loss:		
Gain on valuation	₩ 9,202	₩ 7,140
Gain on disposal	4,655	7,082
Trading assets:		
Gain on valuation	9,532	13,596
Gain on disposal	81,656	112,395
Available-for-sale financial assets:		
Gain on disposal	217,907	344,697
Held-to-maturity financial assets:		
Gain on disposal	2,947	640
Loans:		
Gain on disposal	2,366	3,215
Other receivables:		
Reversal of allowance of bed debt	-	902
Financial liabilities designated at fair value through profit or loss:		
Gain on valuation	73,962	52,785
Gain on disposal	5,029	4,675
Trading liabilities:		
Gain on valuation	6,280	721
Gain on disposal	5,642	10,551
Derivatives:		
Gain on valuation	152,978	123,277
Gain on transaction	339,273	227,464
	₩ 911,429	₩ 909,140

38. Fees and commission income

Fees and commission income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Brokerage commissions	₩ 79,016	₩ 90,501
Underwriting commissions	7,263	10,679
Credit placement fees	17,175	18,924
Financial advisory fees	13,552	10,390
Brokerage commissions on collective investment securities	8,246	7,754
Sales commissions on derivatives-combined securities	1,144	2,207
Others	91,870	93,960
	₩ 218,266	₩ 234,415

39. Dividend income

Dividend income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Trading assets:				
Equity securities	₩	2,731	₩	2,682
Available-for-sale financial assets:				
Equity securities		50,783		54,621
Equity investments		3,660		3,155
Beneficiary certificates		186,426		157,051
Overseas securities		56,923		48,411
		297,792		263,238
	₩	300,523	₩	265,920

40. Other operating income

Other operating income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Merchandise sales	₩	560,995	₩	556,800
Product sales		4,640		3,761
Other sales		133,244		117,314
Other operating profits		11,168		10,127
	₩	710,047	₩	688,002

41. Insurance claims paid

The Group's claims and benefits comprise of claims paid, surrender refunds and dividend expenses.

41-1) Claims and benefits for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Individual insurance:				
Pure endowment	₩	128,059	₩	107,765
Death		496,331		514,481
Endowment		67,492		113,316
		691,882		735,562
Group insurance:				
Pure protection		88,397		46,623
Savings		222		340
		88,619		46,963
	₩	780,501	₩	782,525

41-2) Refunds for the insurance for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Individual insurance:				
Pure endowment	₩	1,900,521	₩	1,891,875
Death		1,932,833		1,858,632
Endowment		500,231		351,728
		4,333,585		4,102,235
Group insurance:				
Pure protection		73,661		73,047
Savings		9,893		7,704
		83,554		80,751
	₩	4,417,139	₩	4,182,986

41. Insurance claims paid (cont'd)

41-3) Dividend expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Individual insurance:				
Pure endowment	₩	18,625	₩	23,498
Death		2,762		2,436
Endowment		761		919
		22,148		26,853
Group insurance:				
Pure protection		2,383		1,810
Savings		2		8
		2,385		1,818
	₩	24,533	₩	28,671

42. Operating and administrative expenses

Operating and administrative expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Policy acquisition costs:		
Agent commission	₩ 509,057	₩ 573,566
Branch office operation	64,647	68,177
Sales promotion	84,956	84,503
Advertising expense	5,233	8,178
Others	175,031	199,103
	838,924	933,527
Maintenance expenses:		
Wages and salaries	194,437	193,944
Bonuses	103,072	87,254
Employment benefits	63,245	61,325
Severance benefits	37,358	28,478
Taxes and dues	109,087	103,942
Office rent	63,603	66,847
Depreciation	20,267	21,699
Commission	58,027	57,653
Information technology	10,303	6,511
Collection	6,409	6,671
Others	30,976	31,218
	696,784	665,542
Deferred acquisition cost	(671,308)	(769,328)
	₩ 864,400	₩ 829,741

43. Asset management expenses

Asset management expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Wages and salaries	₩	20,284	₩	20,037
Bonuses		11,108		9,480
Severance benefits		2,852		2,847
Employment benefits		5,853		6,095
Communication		2,730		2,383
Repairs and maintenance		1,400		288
Outsourcing fee		14,195		14,450
Commission		31,036		30,579
Information technology		709		1,357
Taxes and dues		12,184		12,297
Depreciation		687		778
Others		4,228		4,218
	₩	107,266	₩	104,809

44. Interest expenses

Interest expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Borrowings	₩	36,568	₩	47,025
Derivatives		103,097		69,275
Others		11,858		13,678
	₩	151,523	₩	129,978

45. Loss on valuation and disposal of financial instruments

Loss on valuation and disposal of financial instruments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Financial assets designated at fair value through profit or loss:		
Loss on valuation	₩ 1,665	₩ 11,479
Loss on disposal	3,906	7,095
Trading assets:		
Loss on valuation	31,773	25,973
Loss on disposal	59,810	85,961
Available-for-sale financial assets:		
Impairment loss	12,663	32,114
Loss on disposal	93,424	154,325
Held-to-maturity financial assets:		
Loss on disposal	47	36
Loans:		
Provision for loan losses	14,351	21,260
Loss on disposal	48	-
Other receivables:		
Provision for other receivables	2,139	-
Financial liabilities designated at fair value through profit or loss:		
Loss on valuation	39,052	17,804
Loss on disposal	38,166	43,870
Trading liabilities:		
Loss on valuation	1,241	5,256
Loss on disposal	20,341	15,977
Derivatives:		
Loss on valuation	674,984	517,315
Loss on disposal	294,346	316,479
	₩ 1,287,956	₩ 1,254,944

46. Other operating expenses

Other operating expenses for the years ended December 31, 2016 and 2015 are summarized as follows (Korean won in millions) :

	2016		2015	
Depreciation	₩	10,002	₩	10,413
Amortization		9,222		9,810
Fees and commission expense		20,445		17,002
Cost of sales- merchandise		382,916		392,509
Cost of sales-service		142,963		137,713
Cost of sales-products		2,436		2,839
Cost of other goods sold		13,810		12,831
General and administrative expenses		393,078		369,695
Insurance discount		1,259		1,187
Others		1,633		3,069
	₩	977,764	₩	957,068

47. Foreign currency translation

47-1) Foreign currency denominated assets and liabilities as of December 31, 2016 and 2015 are summarized as follows (U.S Dollar, JP Yen, Euro and Honkong Dollar in thousands and Korean won in millions):

	December 31, 2016		December 31, 2015	
	Amount of foreign currency	Amount of translation	Amount of foreign currency	Amount of translation
Foreign cash and due from banks				
USD	462,514	₩ 558,654	412,013	₩ 483,066
JPY	36,338	377	57,455	558
EUR	25,160	31,893	22,161	28,378
Others	34,895	42,171	50,066	58,679
Trade assets				
USD	534,511	645,957	506,843	594,029
JPY	505,445	5,241	-	-
EUR	35,651	45,191	-	-
Available-for-sale financial assets				
USD	2,324,474	2,806,914	2,092,092	2,452,978
JPY	1,199,860	12,440	1,290,000	12,440
EUR	109,111	138,402	170,439	218,252
HKD	-	-	130,065	19,667
Held-to-maturity financial assets				
USD	8,035,454	9,704,418	4,741,385	5,559,274
Loans				
USD	18,000	21,739	-	-
JPY	2,903,151	30,100	3,200,000	30,100
Other financial assets				
USD	254,662	307,645	103,695	121,580
JPY	13,430	139	12,625	122
EUR	1,322	1,677	-	-
Others	16,847	2,625	-	-
Financial assets Total				
USD	11,629,615	14,045,327	7,856,028	9,210,927
JPY	4,658,224	48,297	4,560,080	43,220
EUR	171,244	217,163	192,600	246,630
Others	51,742	44,796	180,131	78,346
Other financial liabilities				
USD	723,557	₩ 874,419	339,625	₩ 398,041
JPY	35,003	363	56,128	546
EUR	2,235	2,833	114	146
Others	8,643	10,445	279	327

47. Foreign currency translation (cont'd)

47-2) Gain (loss) on foreign currency transactions for the years ended December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	2016			
	Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency translation	Loss on foreign currency translation
Financial assets designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ 13,118
Trade assets	3,698	3,724	28,656	6,432
Available-for-sale financial assets	6,731	21,732	115,160	16,085
Held-to-maturity financial assets	2,993	12,572	389,532	5,819
Others	72,496	70,662	17,623	8,241
	₩ 85,918	₩ 108,690	₩ 550,971	₩ 49,695

	2015			
	Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency translation	Loss on foreign currency translation
Financial assets designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ 4,074
Trade assets	876	3,747	31,048	840
Available-for-sale financial assets	33,260	6,396	138,963	4,585
Held-to-maturity financial assets	5,867	863	269,030	2,697
Others	58,226	60,403	23,663	10,835
	₩ 98,229	₩ 71,409	₩ 462,704	₩ 23,031

48. Non-operating income and expenses

48-1) Non-operating income for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Valuation of investment in joint venture and associates	₩	36,494	₩	13,951
Disposal of investment in joint venture and associates		4		11
Disposal of investment properties		1,018		25
Disposal of property and equipment		119		149
Disposal of intangible assets		-		32
Disposal of non-current assets held-for-sale		534		280
Miscellaneous gains		14,344		8,816
	₩	52,513	₩	23,264

48-2) Non-operating expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Valuation of investment in joint venture and associates	₩	51	₩	26
Disposal of investment in joint venture and associates		1,603		-
Disposal of investment properties		550		859
Impairment of investment properties		23		5,278
Disposal of property and equipment		785		4,472
Impairment of property and equipment		80		18,501
Disposal of non-current assets held-for-sale		540		823
Impairment of intangible assets		405		269
Disposal of intangible assets		178		-
Donations		16,685		23,121
Miscellaneous losses		6,332		7,619
	₩	27,232	₩	60,968

49. Income tax expenses

49-1) Income tax expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Current income tax expense	₩	150,647	₩	246,121
Reserve of expected additional tax due to surtax on undistributed corporate earnings for the following year		(3,514)		13,307
Origination and reversal of temporary differences		(4,444)		1,549
Income tax expense directly recognized in equity		30,519		(9,736)
Additional refund of income taxes		(4,274)		(5,776)
Others		-		(12,108)
Income tax expenses	₩	168,933	₩	233,357

49-2) Income tax expenses calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015
Income before income taxes	₩	712,202	₩	877,471
Income taxes at statutory tax rates		183,518		227,259
Adjustments:				
Non-deductible expense (non-taxable income)		(6,797)		(1,434)
Reserve of expected additional tax due to surtax on undistributed corporate earnings for the following year		(3,514)		13,307
Additional refund of income taxes		(4,274)		(5,776)
Income tax expenses	₩	168,933	₩	233,357
Effective tax rate (%)		23.72%		26.59%

49. Income tax expenses (cont'd)

49-3) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		
	Beginning balance	Increase (Decrease)	Ending Balance
Deferred tax assets:			
Depreciation	₩ 12,157	₩ (299)	₩ 11,858
Loss on valuation of trading assets	2,412	3,282	5,694
Impairment loss on financial assets	24,125	1,724	25,849
Foreign currency transaction loss	149	(149)	-
Taxes and dues	10,285	1,438	11,723
Liabilities for defined benefit obligations	23,376	(4,830)	18,546
Loss on valuation of derivatives	150,467	72,478	222,945
Accrued bonus expenses	7,598	(551)	7,047
Miscellaneous losses (impairment loss on land)	2,898	18	2,916
Miscellaneous losses (dormant insurance payments)	9,156	902	10,058
Minimum policyholder reserves	125,504	57,630	183,134
Contingent liabilities	2,681	(1,898)	783
Loss on revaluation of land	3,701	(11)	3,690
Others	344,973	20,125	365,098
	719,482	149,859	869,341
Deferred tax liabilities:			
Gain on valuation of trading assets	(31,208)	(49,329)	(80,537)
Interest income	(151,500)	(13,748)	(165,248)
Valuation gains and losses on assets and liabilities in foreign currency	(153,997)	(92,565)	(246,562)
Allowance for acceptances and guarantees	(21,659)	3	(21,656)
Gain (loss) on valuation of available-for-sale financial assets	(178,280)	46,501	(131,779)
Gain on valuation of derivatives	(7,672)	(8,807)	(16,479)
Gains on valuation of investments in associates	(17,608)	(537)	(18,145)
Revaluation surplus of property and equipment	(189,347)	(2,532)	(191,879)
Others	(318,041)	(24,401)	(342,442)
	(1,069,312)	(145,415)	(1,214,727)
	₩ (349,830)	₩ 4,444	₩ (345,386)

49. Income tax expenses (cont'd)

49-3) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

	2015		
	Beginning balance	Increase (decrease)	Ending Balance
Deferred tax assets:			
Depreciation	₩ 8,463	₩ 3,773	₩ 12,236
Loss on valuation of trading assets	1,503	909	2,412
Impairment loss on financial assets	22,592	1,533	24,125
Foreign currency transaction loss	168	(19)	149
Taxes and dues	8,518	1,767	10,285
Liabilities for defined benefit obligations	38,153	(14,777)	23,376
Loss on valuation of derivatives	52,341	98,126	150,467
Accrued bonus expenses	7,608	(24)	7,584
Miscellaneous losses (impairment loss on land)	1,848	1,050	2,898
Miscellaneous losses (dormant insurance payments)	9,011	145	9,156
Minimum policyholder reserves	84,532	40,972	125,504
Contingent liabilities	1,672	1,009	2,681
Loss on revaluation of land	(3,644)	7,345	3,701
Others	345,545	11,436	356,981
	578,310	153,245	731,555
Deferred tax liabilities:			
Gain on valuation of trading assets	(66,158)	34,950	(31,208)
Interest income	(125,057)	(26,443)	(151,500)
Valuation gains and losses on assets and liabilities in foreign currency	(57,775)	(96,222)	(153,997)
Allowance for acceptances and guarantees	(21,809)	150	(21,659)
Gain (loss) on valuation of available-for-sale financial assets	(174,423)	(3,944)	(178,280)
Gain on valuation of derivatives	(4,617)	(3,055)	(7,672)
Gains on valuation of investments in associates	(10,702)	(6,908)	(17,610)
Revaluation surplus of property and equipment	(185,537)	(3,810)	(189,347)
Others	(280,599)	(49,513)	(330,112)
	(926,590)	(154,795)	(1,081,385)
	₩ (348,281)	₩ (1,550)	₩ (349,830)

49. Income tax expenses (cont'd)

49-4) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	January 1, 2016		Changes		December 31, 2016	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
Revaluation reserves	₩ 90,288	₩ (19,863)	₩ -	₩ -	₩ 90,288	₩ (19,863)
Gain on valuation of available-for-sale financial assets	684,477	(165,229)	(194,212)	47,066	490,265	(118,163)
Gain on cash flow hedge	31,488	(7,673)	36,606	(8,806)	68,094	(16,479)
Gain (loss) on valuation of investments associates	3,751	(3,686)	(781)	(414)	2,970	(4,100)
The accumulated other comprehensive income in separate account	26,273	(6,358)	(19,877)	4,810	6,396	(1,548)
Gain on valuation of held-to-maturity financial assets	48,827	(11,816)	19,013	(4,601)	67,840	(16,417)
Gain on revaluation of property and equipment	707,995	(158,608)	(1,729)	418	706,266	(158,190)
Remeasurement loss related to defined benefit plan	(45,049)	10,806	30,112	(7,954)	(14,937)	2,852
	₩ 1,548,050	₩ (362,427)	₩ (130,868)	₩ 30,519	₩ 1,417,182	₩ (331,908)

	January 1, 2015		Changes		December 31, 2015	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
Revaluation reserves	₩ 90,288	₩ (19,863)	₩ -	₩ -	₩ 90,288	₩ (19,863)
Gain on valuation of available-for-sale financial assets	538,201	(174,336)	146,316	9,068	684,517	(165,268)
Gain on cash flow hedge	19,077	(4,617)	12,411	(3,055)	31,488	(7,672)
Loss on valuation of investments associates	64,210	(10,424)	(60,501)	6,780	3,709	(3,644)
The accumulated other comprehensive income in separate account	31,625	(7,653)	(5,352)	1,295	26,273	(6,358)
Gain on valuation of held-to-maturity financial assets	55,286	(13,379)	(6,459)	1,563	48,827	(11,816)
Gain on revaluation of property and equipment	654,983	(148,312)	53,012	(10,296)	707,995	(158,608)
Remeasurement loss related to defined benefit plan	(25,403)	7,648	(19,646)	3,158	(45,049)	10,806
	₩ 1,428,267	₩ (370,936)	₩ 119,781	₩ 8,513	₩ 1,548,048	₩ (362,423)

49. Income tax expenses (cont'd)

49-5) Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
Deferred tax assets	₩	869,341	₩	731,555
Deferred tax liabilities		(1,214,727)		(1,081,385)
Deferred tax liabilities, net	₩	(345,386)	₩	(349,830)
Current tax assets	₩	208,858	₩	214,612
Current tax liabilities		(153,142)		(257,866)
Current tax liabilities, net	₩	55,716	₩	(43,254)

Because the individual companies of the Group's consolidation have no rights or intention to offset the corporate income tax, the deferred income tax assets of the individual companies are separated from the above net amounts, and accordingly, the deferred income tax assets as of December 31, 2016 and 2015 separately stated in the financial statements are ₩5,062 million and ₩6,519 million, respectively, deferred income tax liabilities are ₩350,448 million and ₩356,348 million, respectively, current income tax assets are ₩57,652 million and ₩12,864 million, respectively, and current income tax liabilities are ₩1,936 million and ₩56,119 million, respectively.

50. Employee benefits

Details of employee benefits for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016		2015	
Short-term and other long-term employee benefits	₩	562,460	₩	533,763
Post-employment benefits (*)		57,344		46,613

(*) Post-employment include ₩4,728 million and ₩2,110 million of termination benefits for the years ended December 31, 2016 and 2015, respectively and ₩7,934 million and ₩5,814 million of defined contribution plans for the years ended December 31, 2016 and 2015, respectively.

51. Commitments and contingencies

51-1) Mortgage bill and check
The Group provided the lessee with 4 checks (issue amount: ₩848 million) as collateral for leasehold deposits of contract for Kyobo Securities building rental and sublease agreement for building owned by others.

51. Commitments and contingencies (cont'd)

51-2) Legal contingencies outstanding

There are 43 litigations that the Group is accused of including the ones for the payments for insurance claims with litigation costs amounting to ₩12,125 million as of December 31, 2016. Furthermore, there are 118 litigations where the Group is the plaintiff with litigation costs amounting to ₩16,105 million. The outcome of litigations cannot be predicted at the moment. The Group has appropriated reserve of ₩5,393 million for the payment of above insurance claim, and provisions of ₩414 million for the payment of general claims.

51-3) Uncollected notes and check

The Group unintentionally disposed of 1 check received from Shinhan Bank on October 26, 2015, and plans to apply for judgment of nullification for the year ended December 31, 2016.

51-4) Insurance commitments

The contract amounts under the insurance contracts in the general and separate accounts as of December 31, 2016 are as follows (Korean won in millions):

	Number of contract	Total contract amount
General account	8,534,663	₩ 311,229,277
Separate account	754,604	4,219,858
	9,289,267	₩ 315,449,135

51-5) Reinsurance agreements

The reinsurance agreements of individual and group insurance as of December 31, 2016 are as follows:

Reinsurance method	Reinsurance company	Ceding ratio (%)	Nature of risk
Surplus	SCOR Reinsurance Asia-Pacific	100	Risk from excess number of contracts with individuals with high-risk occupations
Surplus	"	100	Risk from excessive contracts
Surplus	Korean Re	100	Kyobo Big Love guarantee insurance
Surplus, quota share	Munich Re	60	Risk from excessive contracts
Surplus, quota share	Korean Re	50	Risk from excessive contracts
Quota share	GeneralCologne Re	10	Individual medical insurance
Quota share	"	10	Accidental insurance
Quota share	"	30	CI wholelife Reinsurance
Quota share	"	30	Second CI guarantee reinsurance
Quota share	"	30	SI insurance

51. Commitments and contingencies (cont'd)

51-5) Reinsurance agreements (cont'd)

The reinsurance agreements of individual and group insurance as of December 31, 2016 are as follows (cont'd):

Reinsurance method	Reinsurance company	Ceding ratio (%)	Nature of risk
Quota share	Hannover Re	10	CI reinsurance
Quota share	"	10	Direct health insurance
Quota share	"	30	Kyobo cancer insurance
Quota share	"	80	Facultative reinsurance
Quota share	"	10 ~ 25	Individual medical insurance
Quota share	Korean Re	10	CI whole life reinsurance
Quota share	"	30	Kyobo cancer insurance
Quota share	"	50	SI insurance
Quota share	"	80	Facultative reinsurance
Quota share	"	50	Mortality (term insurance), injuries (children, accident insurance), hospitalization/surgery/ diagnosis (child insurance)
Quota share	"	20 ~ 25	Individual medical insurance
Quota share	Meiji Yasuda Life Insurance	2	Whole life insurance
Quota share	"	25	Direct accidental insurance
Quota share	Munich Re	10	CI reinsurance
Quota share	"	30	LTC (silver care insurance)
Quota share	"	30	Premier CI insurance
Quota share	"	80	Facultative reinsurance
Quota share	RGA Re	20	Kyobo cancer Insurance
Quota share	"	50	Mortality (term insurance and whole life insurance) Diagnosis (cancer, insurance for lifestyle disease)
Quota share	"	80	Facultative reinsurance
Quota share	SCOR Reinsurance Asia-Pacific	10	Individual medical Insurance
Quota share	"	15	CI reinsurance
Quota share	"	15	Direct health insurance
Quota share	"	80	Facultative reinsurance
Quota share	"	30 ~ 60	Top Class cancer insurance

51. Commitments and contingencies (cont'd)

51-6) The commitments as of December 31, 2016 are as follows (Korean won in millions):

The Group provides SPC etc. with ABCP purchase agreement of ₩402,700 million (December 31, 2015: ₩594,800 million) for the developer's projects as of December 31, 2016 and the details are as follows (provided agreement to accept total CP of ₩150,000 million as of December 31, 2015).

	Amount		Period	Descriptions
WHITE GLORY Co., Ltd.	₩	10,500	2013.09.03~2018.09.21	ABCP purchase commitments
RUCHINAKISS 1st Co., Ltd.		37,000	2013.10.16~2018.12.21	ABCP purchase commitments
ABFT 3st Co., Ltd.		32,000	2013.10.28~2018.12.21	ABCP purchase commitments
IBS 12st Co., Ltd.		41,000	2013.09.17~2018.09.21	ABCP purchase commitments
LISBOA 3rd L.L.C.		42,000	2013.09.24~2018.12.21	ABCP purchase commitments
JBDPROJECT 2nd Co., Ltd.		41,000	2013.10.07~2018.12.21	ABCP purchase commitments
ABFT 1st Co., Ltd.		37,000	2013.09.02~2018.09.21	ABCP purchase commitments
ABFT 2nd Co., Ltd.		37,000	2013.09.13~2018.09.21	ABCP purchase commitments
S-Class Dongnam 1st.		25,700	2015.06.17~2017.12.18	ABCP purchase commitments
S-Class Dongnam 2nd		19,400	2015.06.17~2017.12.18	ABCP purchase commitments
Hanam misa central 2nd		7,100	2016.03.30~2019.11.05	ABCP purchase commitments
ABFT Infra Development Co., Ltd.		23,000	2015.04.30~2022.04.29	ABCP purchase commitments
MS Sejong 3rd Co., Ltd		10,000	2014.05.27~2017.08.24	ABCP purchase commitments
Wonju Dream The One		40,000	2016.10.24~2019.03.27	ABCP purchase commitments
	₩	402,700		

51. Commitments and contingencies (cont'd)

51-7) Stand-by commitments as of December 31, 2016 are as follow (Korean won in millions):

The Group provides SPC with guarantee of debts (purchase commitment etc.) of ₩533,500 million (December 31, 2015: ₩60,900 million) for the developer's projects on Songdo International City development as of December 31, 2016 and the details are as follows.

Company	Trade Opponent	Amount	Descriptions
Kyobo Securities Co., Ltd.	BZ1-1st.	₩ 50,000	Debt guarantee
Kyobo Securities Co., Ltd.	K-1 Alpha	50,000	Debt guarantee
Kyobo Securities Co., Ltd.	Sky 1st.	27,500	Debt guarantee
Kyobo Securities Co., Ltd.	Songdo Global City 1st, 2nd	65,000	Debt guarantee
Kyobo Securities Co., Ltd.	Titan 1st.	100,000	Debt guarantee
Kyobo Securities Co., Ltd.	Invest Golden Haver	11,200	Debt guarantee
Kyobo Securities Co., Ltd	LuckyStrike 8 th Utopia 20th	50,000	Debt guarantee
Kyobo Securities Co., Ltd	Utopia 15th	30,000	Debt guarantee
Kyobo Securities Co., Ltd.	Golden bear 1st.	22,000	Debt guarantee
Kyobo Securities Co., Ltd.	District R-1	10,000	Debt guarantee
Kyobo Securities Co., Ltd.	District S-1	14,800	Debt guarantee
Kyobo Securities Co., Ltd.	District R-2	5,000	Debt guarantee
Kyobo Securities Co., Ltd.	District C-7	5,000	Debt guarantee
Kyobo Securities Co., Ltd.	DW Songsan 2nd	30,000	Debt guarantee
Kyobo Securities Co., Ltd.	TH. 8th	20,000	Debt guarantee
Kyobo Securities Co., Ltd.	IK. 3rd	5,000	Debt guarantee
Kyobo Securities Co., Ltd.	Pro Best Ace	24,000	Debt guarantee
Kyobo Securities Co., Ltd.	Square7 3rd	5,000	Debt guarantee
Kyobo Securities Co., Ltd.	IB Prime 1	2,000	Debt guarantee
Kyobo Securities Co., Ltd.	Atlantis Gimhae	7,000	Debt guarantee
		₩ 533,500	

51-8) The loan and investment commitments as of December 31, 2016 are as follows (Korean won in millions):

	Amount
Loan commitments	₩ 1,686,234
Investment commitments	1,895,743
	₩ 3,581,977

51. Commitments and contingencies (cont'd)

51-9) Other commitments, etc.

The commitments and guarantees as of December 31, 2016 are as follows (Korean won in millions):

	Amount		Counter party	Descriptions
Overdraft commitments	₩	387,000	Standard Chartered Bank, etc.	Margin loans, bank overdraft etc.
Loan line commitments		17,000	Woori Bank, etc.	Loan line commitments
Others		1,079,900	Korea Securities Finance Corp, etc.	CP issue limit commitments, etc.
	₩	1,483,900		

51-10) Securities lending and borrowing
Securities lending and borrowing as of December 31, 2016 are as follows (Korean won in millions):

	Type	Amount		Valuation standard
Securities lent	Equity securities	₩	4,438	Fair value
	Debt securities		399,386	Fair value
		₩	403,824	

	Type	Amount		Valuation standard
Securities borrowed	Equity securities	₩	-	Fair value
	Debt securities		2,728,903	Fair value
		₩	2,728,903	

The Group executes loan transaction and keeps memorandum notes on borrowed securities from Korea Securities Finance Corporation and Korea Securities Depository. The Group keeps accounts for the transaction as financial liabilities designated at fair value through profit or loss when it sells borrowed securities or when it makes a short sale of the borrowed securities.

52. Related parties

52-1) The related parties as of December 31, 2016 and 2015 are as follows:

December 31, 2016	Location
Joint Ventures	
Kyobo AXA Investment Managers Co., Ltd., Saengbo Real Estate Trust Co., Ltd.	Korea
Associates	
A&D Credit Information Co., Ltd., Kocref No. 14, Trus Y 7 REIT Co., Ltd., KoFC KyoboHanwha2010-6, Kyobo 5 Special Purpose Acquisition Company, Hwaseong-Jeongnam General Industry Complexes Co., Ltd., Kyobo BNK Special Purpose Acquisition Company, I2S Korea Co., Ltd.	Korea
Others	
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture, Lifenet Life Insurance Co., Ltd.	Korea

December 31, 2015	Location
Joint Ventures	
Kyobo AXA Investment Managers Co., Ltd., Saengbo Real Estate Trust Co., Ltd.	Korea
Associates	
A&D Credit Information Co., Ltd., Kocref No. 14, Trus Y 7 REIT Co., Ltd., KoFC KyoboHanwha2010-6, Mastern 2 REIT, Kyobo 4 Special Purpose Acquisition Company, Kyobo 5 Special Purpose Acquisition Company, Hwaseong-Jeongnam General Industry Complexes Co., Ltd., I2S Korea Co., Ltd.	Korea
Others	
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture, Lifenet Life Insurance Co., Ltd.	Korea

52. Related parties (cont'd)

52-2) Related parties loans and liabilities

Significant balances with the related parties as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

Related party	Account	December 31, 2016	December 31, 2015
Associates:			
Kocref No.14 REIT CO., Ltd.	Loans	₩ -	₩ 15,000
	Accrued income	-	77
	Allowances	-	(8)
A&D Credit Information Co., Ltd.	Accounts payable	742	796
	Retirement pension (*)	1,009	1,285
Trus Y 7 REIT Co., Ltd.	Leasehold deposits	-	559
Mastern 2 REIT Co., Ltd.	Loans	-	66,813
	Accrued income	-	7
	Allowances	-	(96)
Kyobo 4 Special Purpose Acquisition Company	Loans	-	420
Kyobo 5 Special Purpose Acquisition Company	Loans	831	831
Kyobo BNK Special Purpose Acquisition	Loans	809	-
Joint Ventures:			
Kyobo AXA Investment Managers Co., Ltd.	Accounts payable	93	1,035
	Leasehold deposits received	784	784
	Retirement pension (*)	218	250
	Deposits	4,321	815
Saengbo Real Estate Trust Co., Ltd.	Accounts receivable	3	1
	Accounts payable	2	1
	Retirement pension (*)	3,491	2,651
Others:			
Kyobo Foundation Building	Leasehold deposits	117	129
Daesan Foundation For Rural Culture & Society	Retirement insurance (*)	169	166
Daesan Foundation For Culture	Leasehold deposits received	1,346	1,346
	Accounts payable	15	-
	Retirement pension (*)	321	146
	Credit purchase	1	1
Kyobo Foundation For Education & Culture	Retirement pension (*)	248	188
Lifenet Life Insurance Co., Ltd.	Accounts payable	1	1
Key management personnel	Loans	57	293

(*) Retirement insurance and pension are reserve for policyholder in separate account liabilities.

52. Related parties (cont'd)

52-3) Significant transactions with the related parties
Significant transactions with the related parties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

		2016		2015	
Related party	Account	Revenues	Expenses	Revenues	Expenses
Associates:					
Kocref No.14 REIT Co., Ltd.	Provision for (reversal of) loan losses	₩ 8	₩ -	₩ 1	₩ -
"	Dividend income	9,410	-	856	-
"	Interest income	732	-	1,035	-
A&D Credit Information Co., Ltd.	Premium Income (*)	14	-	16	-
"	Dividend income	49	-	49	-
"	Claims paid (*)	-	23	-	27
"	Operating and Administrative expenses	-	233	-	8,472
"	Property management fee	-	7,630	-	-
Trus Y 7 REIT Co., Ltd.	Dividend income	27	-	222	-
KoFC KyoboHanhwa2010-6	Commission income	-	-	200	-
"	Dividend income	3,019	-	-	-
Mastern 2 REIT Co., Ltd.	Interest income	1,929	-	2,862	-
"	Dividend income	8,562	-	1,039	-
"	Provision for (reversal of) loan losses	96	-	20	-
Joint Ventures:					
Saengbo Real Estate Trust Co., Ltd.	Dividend Income	3,000	-	500	-
"	Premium income (*)	43	-	40	-
"	Claims paid (*)	-	57	-	65
"	Construction revenue	-	-	244	-
Kyobo AXA Investment Managers Co., Ltd.	Premium income (*)	22	-	19	-
"	Dividend Income	3,000	-	2,550	-
	Rental income	1,394	-	1,335	-
"	Commission income	826	-	400	-
"	Merchandise sales	1	-	2	-
"	Construction revenue	1	-	209	-
"	Other operating income	1	-		
"	Claims paid (*)	-	4	-	6
"	Operating and Administrative expenses	-	2,916	-	4,295

52. Related parties (cont'd)

52-3) Significant transactions with the related parties (cont'd)
Significant transactions with the related parties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions) (cont'd):

Related party	Account	2016 Revenues	2016 Expenses	2015 Revenues	2015 Expenses
Others:					
Kyobo Foundation For Education & Culture	Premium income (*)	₩ 1	₩ -	₩ 2	₩ -
"	Sales	1	-	1	-
"	Non-operating expenses	-	1,092	-	-
"	Claims paid (*)	-	4	-	6
Kyobo Foundation Building	Service fee	415	-	406	-
"	Office rent expense	-	260	-	535
Daesan Foundation For Rural Culture & Society	Non-operating expenses	-	700	-	100
"	Claims paid (*)	-	4	-	7
Daesan Foundation For Culture	Premium income (*)	1	-	2	-
"	Rental income	57	-	68	-
"	Sales	4	-	3	-
"	Cost of sales	-	6	-	11
"	Claims paid (*)	-	5	-	4
"	Non-operating expenses	-	1,400	-	11
"	Operating and Administrative expenses	-	63	-	872
Lifenet Life Insurance Co., Ltd.	Other operating expenses	-	2	-	1

(*) Premium income and claims paid belong to profit or loss in separate account.

52-4) The fund transactions with the related parties for the years ended December 31, 2016 are as follows (Korean won in millions):

Related party	2016 Loan transaction Lending	2016 Loan transaction Collection	2016 Investment
Associates			
Kocref No.14 REIT Co., Ltd.	₩ -	₩ 15,000	₩ (1,832)
Mastern 2 REIT Co., Ltd.	-	66,813	(13,500)
Kyobo BNK Special Purpose Acquisition Company	809	-	-
	₩ 809	₩ 81,813	₩ 15,332

52. Related parties (cont'd)

52-4) The fund transactions with the related parties for the years ended December 31, 2016 are as follows (Korean won in millions):

Related party	2015		
	Loan transaction		Investment
	Lending	Collection	
Associates			
Kyobo 4 Special Purpose Acquisition Company	₩ 420	₩ -	₩ 4
Kyobo 5 Special Purpose Acquisition Company	831	-	15
	₩ 1,251	₩ -	₩ 19

52-5) The Group concluded that the key management includes executives and outside directors who have authority and responsibilities for decision making of the business plan, operations and control over the Group. Key management compensation for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Long and short-term employee benefits	₩ 17,488	₩ 15,531
Retirement benefits	4,077	10,903
	₩ 21,565	₩ 26,434

53. Earnings per share

Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Net income available for common stock(*)	₩ 551,662	₩ 607,850
Weighted average number of common shares outstanding	20,500,000 shares	20,500,000 shares
Earnings per share in won	₩ 26,910	₩ 29,651

(*) Net income available for common stock is relevant to the Controlling Company's shares.

The Group's basic earnings per share and diluted earnings per share are the same since there are no potential diluted shares as of December 31, 2016 and 2015.

54. Statement of cash flows

Significant non-cash activities for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	2016	2015
Changes in valuation gain on available-for-sale financial assets, etc.	₩ (147,793)	₩ 813
Volatility in valuation gain and loss on held-to-maturity financial assets	14,411	(4,895)
Volatility in valuation gain and loss on derivatives for cash flow hedging purpose	27,800	9,355
Remeasurements of defined benefit obligation	21,492	(2,846)
Volatility in separate account OCI	(15,067)	(4,056)
Transfer to revaluation gain on tangible assets	(717)	2,534
Transfer of available-for-sale financial assets to held-to-maturity financial assets	716,844	213,941
Write-off of loans and receivables	71,282	32,401

55. Risk management

55-1) General

55-1-1) Risk management overview

The objective of risk management is to effectively manage and control various uncertainties that prevent the Group from achieving its business goal. The Group supports its stable business activities by setting the appropriate risk limits to ensure the risk capital (e.g. solvency margin) is maintained above the minimum risk based capital required by the Financial Supervisory Service even in the environment which various risks may actually realize simultaneously, and also comprehensively manages assets and liabilities portfolios to enhance profitability compared to risk.

The Group's risk management process is as follows:

1) Risk identification and classification

The Group identifies risks related to market, credit, interest, insurance, liquidity, operation, strategy, reputation, and variable insurance guarantee as significant risks. Market, credit, interest, insurance, liquidity and variable insurance guarantee risks are classified as financial risks, while operation, strategy, reputation risks are classified as non-financial risks.

2) Risk measurement and management

Market, credit, interest, insurance and operational risks are measured using Value at Risk (VaR) method. Liquidity risk is periodically monitored and managed to ensure liquidity level is adequately maintained by setting the minimum liquidity limit that reflects cash flows and variability for the last 6 months. In addition, variable insurance guarantee risk is periodically measured using a simulation method called the Conditional Tailed Expectation (CTE(95) – CTE(70)).

55. Risk management (cont'd)

55-1) General (cont'd)

55-1-1) Risk management overview (cont'd)

The Controlling Company continues to maintain Asset-Liability Management (ALM) policy to secure long-term stable interest rate margins. In order to consistently improve the asset and liability structure, the product sales mix has been weighted more heavily in favor of investment linked products and floating-rate type policies, while cash flow stability has been strengthened through the increase of long-term fixed-rate interest assets. In addition, constant improvements are being made to the ALM systems.

3) Risk control

To hedge, accept, transfer and mitigate risks, the Controlling Company sets risk limits at adequate level and monitors if these limits are appropriate and in compliance with the risk management policies and procedures. The risk limits are adjusted as necessary, and a contingency plan is also placed in operation.

In addition, the risk management department provides timely feedbacks and ensures fast and proper decision making process for any important decision making matters.

4) Risk monitoring and reporting

The Group monitors various risk factors (e.g. interest rates, stock index, FX rates, etc.), risk quantities by each risk and related monitoring index, and regulatory related index (e.g. solvency margin) on a daily, monthly and quarterly basis using the check list, and if any unusual instances are identified, they are reported to the management or The Risk Management Committee and appropriate action is taken.

55-1-2) Risk management framework

Risk management organization is divided into division in charge of risk management and division managing individual risks.

The Risk Management Committee is responsible for the overall establishment of the Controlling Company's risk management policies that include basic direction of risk management, risk based business strategy, risk limits, risk goal, risk index. Risk limits for each risk and detail implementation for risk management are ruled by the Regulation for the delegation and authorization.

The results of risk monitoring and analysis are regularly reported to the Risk Management Committee with the management plan. Any issues requiring management's attention including performance of insurance risk management are reported to the Risk Management Council.

55. Risk management (cont'd)

55-1) General (cont'd)

55-1-2) Risk management framework (cont'd)

The Controlling Company's major risk management organization is as follows

1) Risk Management Committee

The Risk Management Committee is comprised of one standing director and two outside directors and has overall responsibility for establishing basic directions and major policies of risk management consistent with management strategies and setting appropriate risk limits for the Group.

2) Risk Management Council

The Risk Management Council sets the agenda that will be discussed at the Risk Management Committee, implements strategies established by the Risk Management Committee, sets the limit for each risk factor and prepares suitable solution when risk limit exceeds or may exceed the set limit.

3) Risk Management Team

The Group runs the Risk Management Team and a risk management unit for each risk to support the Risk Management Committee and the Risk Management Council. The Risk Management Team who is independent from the business operation departments plans and sees company level of financial and non-financial risk management by preparing risk management policies, regulations.

Risk Management Support Team, in charge of risk management, performs plan-see functions independent from Sales Department (including non-financial risk management) such as establishing risk management policies and plan, regulations and rules, and setting risk limits. Individual risk management departments perform Do functions and operate in 6 teams.
- Market risk: asset portfolio management team
- Credit risk: investment asset evaluation team/retail credit marketing team
- Interest rate/liquidity risk: finance team
- Insurance risk: insurance risk management support team
- Variable insurance guarantee risk: TF taking action for IFRS 4

55-2) Regulatory capital adequacy

55-2-1) Kyobo Life Insurance

1) Risk Based Capital (RBC)

The Controlling Company measures, manages and discloses RBC (e.g. Solvency) ratio according to the Regulation on Supervision of Insurance Business to maintain required capital for the solvency margin.

55. Risk management (cont'd)

55-2) Regulatory capital adequacy (cont'd)

55-2-1) Kyobo Life Insurance (cont'd)

RBC is available capital (e.g. Solvency) divided by required capital (e.g. Solvency Threshold). Available capital represents how capable the Controlling Company is in paying the liabilities to policy holders, even in cases of unexpected loss or decline in the value of assets. Required capital is the risk amount of the Controlling Company. This ratio indicates insurance company's financial strength and claim payment ability.

Available capital is comprised of capital, capital surplus and retained earnings. Required capital is computed considering insurance, interest rates, credit, market, operational risks and dispersion effect. In order to calculate risk based capital requirements, the computation is distinguished by insurance, interest, credit, market and operational risks considering the risk diversification effect. When the Controlling Company sets portfolio strategy, the impact of Risk Based Capital is considered and the internal risk quantity related to insurance, interest, credit, market and operational risks is measured through internal measurement models.

The FSS requires the Risk Based Capital to be maintained above 100% based on consolidated financial statements and for cases that do not meet the requirements, corrective actions will be taken so that financial competitiveness can be maintained.

	Solvency Ratio	Remedial action
Improvement recommended	Above 50% and below 100%	- Requires to increase capital, limits new business entering, etc.
Improvement required	Above 0% and below 50%	- Requires executive replacement, re-organization of subsidiaries, etc.
Improvement commanded	Below 0%	- Executives' tasks are halted, insurance business is stopped, etc.

The Controlling Company follows the RBC ratio set by the FSS.

Non-insurance financial companies or non-insurance companies are exempt from RBC ratio calculation for the consolidated financial statements. No companies subject to consolidation of the Group except for the Controlling Company have significant impact on RBC ratio calculation. Also, internal transactions between consolidated companies are not significant so that disclosures on risk are partially disclosed by consolidated company.

2) Measurement and management

The Controlling Company sets the total risk limits and guidance as a part of annual business plan to ensure, even though risks are possible, the risk capital (e.g. solvency margin) is greater than minimum required risk based capital on the standard guidelines promulgated by the Financial Supervisory Service. Risk capital is monitored on a monthly basis to maintain at appropriate level against the amount of total risks of the assets. The Controlling Company reviews acceptability of risk capital under the case of abnormally increased risks by measuring sensitivity and conducting scenario method stress test for significant risk factors with supplementing the limitation of Value at Risk base measurement.

55. Risk management (cont'd)

55-2) Regulatory capital adequacy (cont'd)

55-2-2) Kyobo Securities

1) Net Capital Ratio (NCR)

In order to prevent inevitable risks arising from operating activities and to minimize investors', customers' and other stakeholder's loss in wealth, Kyobo Securities are at their best in managing their capital. The management of capital adequacy is based on net capital ratio enacted by the FSS. Kyobo Securities reports their net capital ratio results to the FSS at the end of every month.

2) Capital management

The main objective of Kyobo Securities' capital management is to maximize each shareholder's value and maintain its competitive credit rating through main operations of Kyobo Securities. To satisfy the externally imposed capital requirements, Kyobo Securities actively carries out capital management. Kyobo Securities restructures capital according to the change in capital structure, changes in market and risks associated with operating activities. Kyobo Securities may maintain or change the capital structure by adjusting the shareholder's amount of dividend, right issue or through capital reduction. Compared with the prior year, Kyobo Securities have not changed any rules or procedures in their objective to manage their capital.

3) Regulatory capital status

In order to maintain capital adequacy of financial investment firms, the FSS has decided to regulate the net capital ratio at 100%. For security firms that do not meet this requirement at a certain minimum, the FSS will take certain actions accordingly. The actions are as follows:

- Net capital ratio is above 120% but below 150%: recommendation of improvement
- Net capital ratio is above 100% but below 120%: requirement of improvement
- Net capital ratio is below 100%: commandment of improvement

Kyobo Securities follows Net capital ratio stipulated by the FSS.

55-3) Insurance risk

55-3-1) Overview

Insurance risk is the risk related to the insurance company's main service of contract acquisition and payment of insurance claims. Potential loss from insurance risk is incurred when there is a difference between the insurance premium collected from the policyholders and actual insurance claims paid.

55-3-2) Management of insurance risk

Insurance risk management comprises of acceptance and administration of insurance contracts, calculation and adjustment of premium rate, review and payment of claims, reinsurance and closing accounts. Each insurance component is managed by a department operating for the risk component.

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-2) Management of insurance risk (cont'd)

The Risk Management Team and other related departments conduct preemptive risk management when they develop or revise an insurance product. Insurance risk is continuously improved through regularly reviewing experience rate analysis, insurance risk measurement, underwriting and claims inspection process after product selling.

1) Underwriting

The Group reviews and improves the medical underwriting guideline based on the changes of medical environment. The Group reassesses and reinforces underwriting standards through profit and loss analysis over insurance contracts. Consultants are updated with the latest underwriting standards. The Group distributes underwriting manual for consultants to prevent miss-selling. Risk Management Supporting enhances the accuracy of the risk assessment over a subscribed insurance contract. It provides various risk information that are consistent and underwriting that is reasonable.

2) Risk management through reinsurance

The Group cedes an insurance contract to reinsurer if risks of the contract need to be transferred or diversified to ensure claims payment ability and to maintain financial sustainability of the Group. To achieve the objectives of reinsurance activity, the Group runs reinsurance business efficiently by profit-loss analysis, cedes insurance contracts to reliable reinsurer and observes relevant regulations through the internal control system.

3) Developing insurance product

When an insurance product is developed or revised, the Group prices insurance premium based on the analysis of expected and actual insurance risk difference and sensitivity to the risk factors. The Group also reviews the appropriateness of the premium and the profitability of the products through the historical loss experience analysis. The Group reviews compliance of risk management policy and appropriateness of expected profit-loss based on experience rate as a part of post selling risk management for a high risk product. Policy and underwriting standard of the product would be revised in line with the result of the review to improve insurance risk.

4) Assessment of claims requests and payment

A standard process for accepting requests and claims payment is enacted to regulate the assessment process of claims requests. The Group pays reasonable benefit using insurance risk management system(Score), assessment process by types of claims and historical insurance loss experience analysis. The Group monitors deficiency of insurance policy through claim assessment process, and based on that, modifies insurance policies and contracts. The claims payment process is continuously improved reflecting the result of insurance event inspection process monitoring, internal audit and customer complaints etc.

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-3) Insurance risk amount

Insurance risk of a life insurance company is measured by insurance premium risk. Reserve risk is managed by liability adequacy test as fluctuation of reserve for life insurance product is insignificant and claims are paid within a short period of time.

Insurance premium risk exposure is insurance risk premium for accidents such as death, disease, etc. incurred within a year from December 31, 2016 and 2015 for all insurance contracts and the claims are to be paid for the next year.

The Group's insurance premium risk exposure and insurance premium risk amounts as of December 31, 2016 and 2015 are summarized as follows (Korean won in millions):

	December 31, 2016	
	Exposure	Insurance risk amount
Death	₩ 508,394	₩ 85,493
Disability	58,712	46,645
Hospitalization	272,252	28,840
Operation, diagnosis	639,193	349,372
Medical expenses	140,627	23,503
Others	48,579	18,615
	₩ 1,667,757	₩ 552,468
Before applying reinsurance ratio		₩ 552,468
Possession ratio		94.54%

	December 31, 2015	
	Exposure	Insurance risk amount
Death	₩ 506,639	₩ 85,312
Disability	59,933	48,143
Hospitalization	271,135	28,617
Operation, diagnosis	598,322	344,971
Medical expenses	124,132	13,159
Others	50,125	18,927
	₩ 1,610,286	₩ 539,129
Before applying reinsurance ratio		₩ 539,129
Possession ratio		94.66%

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-4) Credit risk from insurance contracts

1) Overview

Credit risk is the risk of financial loss to the Group due to debtor's bankruptcy or if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the risk amount (the unexpected loss) exceeds the expected loss, and credit risk from insurance contract arising mainly from reinsurer's default risk.

The Group chooses blue chip reinsurance company based on the established standards including major financial indices used to assess the reinsurer for its credit rating, RBC, financial adequacy, ratio of market share etc. The Group regularly monitors if reinsurer's secure operation is maintained to prevent sudden decrease in its credit rating. If the Group finds that transactions with reinsurer are not secure, countermeasures such as contract termination take place.

2) Paid premium for ceded reinsurance based on credit ratings of reinsurer

The Group's ceded reinsurance premium as of December 31, 2016 and 2015 amounted to ₩96,262 million and ₩91,430 million, respectively and all the counterparties have credit rating above AA-.

3) Asset details with reinsurers based on credit ratings

The Group's reinsurance receivables as of December 31, 2016 and 2015 amounted to ₩68,424 million, ₩64,732 million, respectively and all the counter parties have credit rating above AA-.

55-3-5) Market risk from insurance contracts

1) Overview

Market risk from insurance contracts is the risk that rises from the changes in market prices such as foreign exchange rates, interest rates and equity prices in certain insurance contract such as unit-linked variable or variable interest rate product that produces additional benefits (Guaranteed Minimum Death Benefit (GMDB), Guaranteed Minimum Annuity Benefit (GMAB) etc.) due to the contract term of providing guarantee amount above the contracted value.

2) Management of minimum guarantee risk of unit-linked variable products

The Group uses two types of risk management approaches for minimum guarantee risk of unit-linked variable products. For the passive management, the Group recognizes option and guarantees liability or reserves certain amount of the capital to cover the expected loss. For more active management, the guarantee risk of unit-linked variable products is measured and limited at the product development stage and static and dynamic hedging method or reinsurance can be used to mitigate the risk.

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-5) Market risk from insurance contracts (cont'd)

The Guarantee Risk Management task force team establishes optimal guarantee risk management strategy by continuously monitoring guarantee risk and analyzing effectiveness of the risk management strategy.

3) Liabilities of interest rate linked product for the minimum interest guarantee risk as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Below 0%	₩ 93,538	₩ 98,544
Over 0% and below 2%	11,022,784	8,484,478
Over 2% and below 3%	9,354,734	9,746,207
Over 3% and below 4%	9,068,261	8,181,724
Over 4%	1,820,548	1,707,215
	₩ 31,359,865	₩ 28,218,168

The guaranteed minimum interest rate is specified in insurance terms. The Group records the guarantee reserve if the disclosed interest rate is lower than the guaranteed minimum interest rate of the variable products.

4) Minimum guarantee risk of unit-linked variable products

Minimum guarantee risk of unit-linked variable products amount as of December 31, 2016 and 2015 as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
GMAB	₩ 102,782	₩ 101,377
GMDB	58,882	208,615
GLWB	6,746	2,403
Others	6,477	7,741
	₩ 174,887	₩ 320,136

55-4) Interest rate risk

55-4-1) Overview

Interest rate risk is the risk in decrease of net assets incurred from interest rate fluctuation. It arises from the maturity structure and interest rate differences between interest bearing assets and liabilities.

55. Risk management (cont'd)

55-4) Interest rate risk (cont'd)

55-4-2) Measurement and management

1) Measurement

The Group measures interest rate risk with both the standard model (RBC) and the internal model enacted by the Financial Supervisory Service. Interest risk calculation formula was as follows:

Interest rate risk = MAX{((interest bearing liabilities' exposure X liabilities' duration – interest bearing assets' exposure X asset duration) X interest rate variance), Risk amount of minimum interest } + Negative interest spread risk

Internal model = (interest bearing liabilities' exposure X liabilities' duration - interest bearing assets' exposure X asset duration) X interest rate variance

Duration: Cash flow weighted average maturity or average recovery period of investment amount or price sensitivity to the change of interest.

Risk amount of minimum interest: fixed interest liabilities X 2.38% + other liabilities X (1.41%~2.83%)

Interest risk amount by Standard model of Financial Supervisory Service RBC system is calculated by multiplying exposure of interest bearing asset and liability by duration. Whereas, the internal model calculates interest risk amount using effective duration calculated from the cash flow considered by the attributes of interest bearing assets and liabilities.

The confidence level of interest risk in internal model applies 99% (the probability of once occurring once in 100 years) as the same with the interest risk in standard model.

2) Management

Within an Asset Liability Management Framework the Group is seeking to reduce the duration gap in the mid and long term view by increasing interest bearing asset duration or asset amount or, decreasing liability duration. The Group sets the interest rate risk limit amount considering equity capital, solvency margin and risk management polices etc. and emergency situation scenario test assuming the unexpected abnormal economic crisis is also conducted on a regular basis.

55. Risk management (cont'd)

55-4) Interest rate risk (cont'd)

55-4-2) Measurement and management (cont'd)

3) Interest risk exposure

Exposure to the interest bearing asset and liabilities as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Exposure	Sensitivity	Exposure	Sensitivity
Interest bearing asset				
Due from banks	₩ 1,018,157	₩ 3,566,885	₩ 1,337,606	₩ 2,404,725
Investment securities (*)	45,538,666	378,001,694	42,623,741	293,789,036
Loans	17,862,360	82,039,196	16,278,592	66,951,251
	₩ 64,419,183	₩ 463,607,775	₩ 60,239,939	₩ 363,145,012
Interest bearing liabilities				
Fixed interest rate contract	₩ 28,179,202	₩ 278,840,426	₩ 27,666,399	₩ 272,708,077
Interest rate linked contract	31,359,866	142,214,407	28,218,173	99,402,650
	₩ 59,539,068	₩ 421,054,833	₩ 55,884,572	₩ 372,110,727
Negative interest spread risk		₩ 451,280		₩ 375,106
Interest risk amount		1,415,743		1,286,169
Interest various factor		1.85%		1.85%

(*) Including amounts of debt securities, bond type beneficiary certificate and held-to-maturity financial instruments in available-for-sale financial assets.

55-5) Credit risk

55-5-1) Overview

Credit risk is the risk of financial loss to the Group due to debtor's bankruptcy or if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the risk amount (the unexpected loss) exceeds the expected loss.

55-5-2) Measurement and management

The Group measures credit risk using the standard model and the internal model. The standard model calculates credit risk amount according to the forth clause of Article 7-2 of the Regulation on Supervision of Insurance Business.

The internal model calculates credit risk amount using VaR calculated from the Group's Credit Risk Management System (CRMS). The internal model calculates credit risk amount using VaR calculated from the Group's Credit Risk Management System after reflecting correlation and portfolio distribution effect. For corporate borrower, the Group uses mark-to-market method, and for individual borrower, the Group uses Default Mode (DM) using loan pool.

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-2) Measurement and management (cont'd)

The Group manages credit risk by setting VaR limit and maximum credit exposure. Compliance with credit risk management policy is monitored by checking the breaches of the VaR limit on a monthly basis, and reviewing the risk tolerance by analyzing credit risk amount under normal and stress situation. The Group sets credit exposure limit for each borrower base on its industry and credit rating. The conformity of this limit is reviewed every month.

After the loan initiation, credit review for each significant borrower is performed regularly. The Group revises exposure limit, decreases credit line, collects the loan or increases collateral if any symptom of credit rating drop. Appropriate steps, such as collection, are taken when the borrower's credit rating becomes speculative. The Group establishes action plan by reviewing the financial structure and payment ability of the currently or potentially problematic borrowers through designated units (e.g. Investment Asset Analysis Team, Loan Management Team, A&D, etc.).

55-5-3) Maximum exposure to credit risk

The Group's maximum exposure to credit risk as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Cash and due from banks (*1)	₩ 1,376,183	₩ 1,727,081
Financial assets designated at fair value through profit or loss (*2)	335,928	346,939
Trading assets (*2)	3,032,075	3,382,770
Available-for-sale financial assets (*2)	14,771,175	16,492,836
Held-to-maturity financial assets	27,187,549	22,860,268
Loans (*3)	18,448,371	16,828,069
Other receivables (*3)	1,695,932	1,646,405
Derivative assets	241,777	190,887
	₩ 67,088,990	₩ 63,475,255

(*1) The maximum exposure amounts for cash and due from banks in the statement of financial position excludes cash on hand without credit risk.
(*2) Financial instruments of equity securities in financial assets designated at fair value through profit or loss, financial assets held-for-trading, and available-for-sale financial assets in the statement of financial position are excluded.
(*3) The maximum exposure amounts for loans and other receivables are presented as net of allowance.

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-4) Impairment information of loans

Past due or impairment information for loan, as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Neither past due nor impaired	₩ 18,250,472	₩ 16,689,672
Past due but not impaired	206,750	121,653
Impaired	41,242	86,784
	18,498,464	16,898,109
Less : allowance	(50,093)	(90,754)
	₩ 18,448,371	₩ 16,807,355

55-5-5) Credit soundness of loans neither past due nor impaired

Credit soundness of loans that are neither past due nor impaired as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016					
	Policy loans	Loans secured by investment securities	Loans secured by real estate	Call loans, credit loans and guarantee loans	Other loans	Total
Risk-free	₩ 1,099	₩ -	₩ -	₩ 3,314,934	₩ -	₩ 3,316,033
AAA	-	-	354,785	932,121	32,308	1,319,214
AA+ ~ AA-	-	-	-	78,427	46,203	124,630
A+ ~ BBB-	-	-	-	238,705	-	238,705
Unrated	-	-	900,841	1,162,975	1,640	2,065,456
Others	5,857,538	366,578	3,623,766	1,303,232	35,320	11,186,434
	5,858,637	366,578	4,879,392	7,030,394	115,471	18,250,472
Less : allowance	-	-	(1,299)	(15,872)	(26)	(17,197)
	₩ 5,858,637	₩ 366,578	₩ 4,878,093	₩ 7,014,522	₩ 115,445	₩ 18,233,275
Mitigation of credit risk due to collateral	₩ 5,857,537	₩ -	₩ 4,572,003	₩ 795,806	₩ 12,028	₩ 11,237,374

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-5) Credit soundness of loans neither past due nor impaired (cont'd)

	December 31, 2015					
	Policy loans	Loans secured by investment securities	Loans secured by real estate	Call loans, credit loans and guarantee loans	Other loans	Total
Risk-free	₩ 319	₩ -	₩ -	₩ 3,169,251	₩ -	₩ 3,169,570
AAA	-	-	306,742	740,245	29,125	1,076,112
AA+ ~ AA-	-	-	-	201,383	11,900	213,283
A+ ~ BBB-	-	-	-	245,097	19,948	265,045
Unrated	-	-	721,932	747,153	2,421	1,471,506
Others	5,818,486	263,335	3,149,578	1,171,688	91,070	10,494,157
	5,818,805	263,335	4,178,252	6,274,817	154,464	16,689,673
Less : allowance	-	-	(1,541)	(14,249)	(27)	(15,817)
	₩ 5,818,805	₩ 263,335	₩ 4,176,711	₩ 6,260,568	₩ 154,437	₩ 16,673,856
Mitigation of credit risk due to collateral	₩ 5,818,486	₩ -	₩ 3,890,430	₩ 573,002	₩ 15,862	₩ 10,297,780

Credit rating above is classified by Risk Based Capital Manual enacted by the FSS. Retail loan included in other is classified by internal credit rating which is rated by Behavior Scoring System (BSS).

Classification of retail loan as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Gilts (Grade 1~4)	₩ 2,756,874	₩ 2,082,274
Normal (Grade 5~8)	2,027,350	1,452,266
Disadvantage (Grade 9~10)	22,288	16,749
Others (i.e. risk free, etc.)	961,055	820,319
	₩ 5,767,567	₩ 4,371,608

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-6) Aging analysis of loans that were past due but not impaired

Aging analysis of loans that were past due but not impaired as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Loans secured by real estate	Unsecured loans	Loans secured by third party guarantees	Total
Less than:				
30 days	₩ 152,839	₩ 36,697	₩ 10,951	₩ 200,487
31~60 days	464	2,675	600	3,739
61~90 days	369	1,935	220	2,524
	153,672	41,307	11,771	206,750
Less: allowance	(278)	(2,861)	(15)	(3,154)
	₩ 153,394	₩ 38,446	₩ 11,756	₩ 203,596
Mitigation of credit risk due to collateral	₩ 61,855	₩ -	₩ 11,767	₩ 73,652

	December 31, 2015				
	Loans secured by real estate	Unsecured loans	Loans secured by third party guarantees	Other loans	Total
Less than:					
30 days	₩ 57,704	₩ 39,185	₩ 17,742	₩ 20	₩ 114,651
31~60 days	571	2,183	617	-	3,371
61~90 days	628	2,269	734	-	3,631
	58,903	43,637	19,093	20	121,653
Less: allowance	(249)	(3,196)	(19)	-	(3,464)
	₩ 58,654	₩ 40,441	₩ 19,074	₩ 20	₩ 118,189
Mitigation of credit risk due to collateral	₩ 58,551	₩ -	₩ 19,093	₩ 20	₩ 77,664

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-7) Impaired loans

Impaired loans as of December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016						
	Individual assessing		Collective assessing				
	Un-secured loans	Other loans	Policy loans	Loans secured by real estate	Un-secured loans	Loans secured by third party guarantees	Total
Impaired	₩ 582	₩ 15,623	₩ 545	₩ 4,817	₩ 16,054	₩ 3,621	₩ 41,242
Less allowance	(582)	(15,423)	(545)	(623)	(12,358)	(211)	(29,742)
	₩ -	₩ 200	₩ -	₩ 4,194	₩ 3,696	₩ 3,410	₩ 11,500
Mitigation of credit risk due to Collateral	₩ -	₩ -	₩ -	₩ 4,800	₩ -	₩ 3,621	₩ 8,421

	December 31, 2015							
	Individual assessing		Collective assessing					
	Un-secured loans	Other loans	Policy loans	Loans secured by real estate	Un-secured loans	Loans secured by third party guarantees	Other loans	Total
Impaired	₩ 607	₩ 62,727	₩ 454	₩ 5,062	₩ 14,556	₩ 3,377	₩ 1	₩ 86,784
Less allowance	(607)	(57,905)	(454)	(930)	(11,376)	(201)	-	(71,473)
	₩ -	₩ 4,822	₩ -	₩ 4,132	₩ 3,180	₩ 3,176	₩ 1	₩ 15,311
Mitigation of credit risk due to Collateral	₩ -	₩ -	₩ -	₩ 5,062	₩ -	₩ 3,377	₩ 1	₩ 8,440

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-8) Risk concentration by industry sector of loans

An analysis of risk concentration by industry sector of loans as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016						
	Real estate and lease	Whole sale, retail, transportation & lodging	Finance and insurance	Electricity, gas, stream and water supply	Construction	Others	Total
Call loans	₩ -	₩ -	₩ 700	₩ -	₩ -	₩ -	₩ 700
Policy loans	-	8,514	197	-	11,032	5,839,439	5,859,182
Loans secured by investment securities	-	-	-	-	-	296,777	296,777
Loans secured by real estate	333,616	1,200	548,781	-	-	4,154,285	5,037,882
Unsecured loans	1,115,115	1,203,673	255,049	952,418	433,618	2,400,565	6,360,438
Loans secured by third party guarantees	221,283	-	-	-	206,704	384,403	812,390
Other loans	10,000	-	80,150	2,875	-	38,070	131,095
	₩ 1,680,014	₩ 1,213,387	₩ 884,877	₩ 955,293	₩ 651,354	₩ 13,113,539	₩ 18,498,464

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-8) Risk concentration by industry sector of loans (cont'd)

	December 31, 2015						
	Real estate and lease	Whole sale, retail, transportation & lodging	Finance and insurance	Electricity, gas, stream and water supply	Construction	Others	Total
Call loans	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,100	₩ 1,100
Policy loans	-	-	-	-	-	5,819,259	5,819,259
Loans secured by investment securities	-	-	-	-	-	263,335	263,335
Loans secured by real estate	233,525	2,487	463,147	-	-	3,543,058	4,242,217
Unsecured loans	1,175,370	1,138,291	180,995	715,257	216,785	2,404,909	5,831,607
Loans secured by third party guarantees	28,281	-	-	-	49,685	519,104	597,070
Other loans	21,808	-	60,125	-	27,875	33,713	143,521
	₩ 1,458,984	₩ 1,140,778	₩ 704,267	₩ 715,257	₩ 294,345	₩ 12,584,478	₩ 16,898,109

55-5-9) Credit rating of debt securities

Credit rating of debt securities as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016						
	Government and public Bonds	Bonds issued by financial institutions and government agencies	Financial bonds	Corporate bonds	Overseas securities	Others	Total
Risk-free	₩ 16,610,616	₩ 4,521,773	₩ -	₩ -	₩ 4,679,719	₩ -	₩25,812,108
AAA	1	5,971,524	212,295	2,249,845	3,677,946	272,505	12,384,116
AA+ ~AA-	8	277,336	1,425,708	928,609	2,865,984	18,193	5,515,838
A+ ~BBB-	-	-	10,466	243,832	1,210,037	118,075	1,582,410
BBB- and below	-	-	-	28,189	1	-	28,190
Unrated	-	-	-	547	-	3,518	4,065
	₩ 16,610,625	₩ 10,770,633	₩1,648,469	₩3,451,022	₩ 12,433,687	₩412,291	₩45,326,727

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-9) Credit rating of debt securities (cont'd)

	December 31, 2015						
	Government and public Bonds	Bonds issued by financial institutions and government agencies	Financial bonds	Corporate bonds	Overseas securities	Others	Total
Risk-free	₩16,503,560	₩ 5,897,479	₩ -	₩ 30,376	₩1,660,554	₩ -	₩ 24,091,969
AAA	-	6,441,182	621,649	2,218,120	2,870,291	234,070	12,385,312
AA+ ~AA-	8	277,268	1,373,721	1,223,776	2,395,111	68,473	5,338,357
A+ ~BBB-	-	-	29,998	264,659	885,873	45,555	1,226,085
BBB- and below	-	-	-	27,536	1	9,557	37,094
Unrated	-	-	-	509	-	3,487	3,996
	₩16,503,568	₩ 12,615,929	₩ 2,025,368	₩ 3,764,976	₩7,811,830	₩ 361,142	₩ 43,082,813

55-5-10) Risk concentration by industry sector of debt securities

An analysis of risk concentration by industry sector of debt securities as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016						
	Government owned entity	Finance and insurance	Electricity, gas, stream and water supply	Construction	Real estate and lease	Others	Total
Financial assets at fair value through profit or loss	₩ 725,859	₩ 2,052,896	₩ 101,543	₩ 3,518	₩ -	₩ 484,187	₩ 3,368,003
Available-for-sale financial assets	6,164,835	3,789,306	1,569,769	731,130	370,510	2,145,625	14,771,175
Held-to-maturity financial assets	14,022,070	5,157,485	2,211,893	1,443,607	730,729	3,621,765	27,187,549
	₩20,912,764	₩ 10,999,687	₩ 3,883,205	₩2,178,255	₩ 1,101,239	₩ 6,251,577	₩45,326,727

	December 31, 2015						
	Government owned entity	Finance and insurance	Electricity, gas, stream and water supply	Construction	Real estate and lease	Others	Total
Financial assets at fair value through profit or loss	₩ 438,568	₩2,542,390	₩ 144,658	₩ 3,487	₩ -	₩ 600,606	₩ 3,729,709
Available-for-sale financial assets	10,911,325	707,248	1,639,885	890,291	10,142	2,333,945	16,492,836
Held-to-maturity financial assets	14,790,671	1,815,372	1,746,365	1,438,574	-	3,069,286	22,860,268
	₩ 26,140,564	₩5,065,010	₩ 3,530,908	₩ 2,332,352	₩ 10,142	₩6,003,837	₩ 43,082,813

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-11) Risk concentration by geographic location of debt securities

An analysis of risk concentration by geographic location of debt securities as of December 31, 2016 and 2015 is as follows (Korean won in millions):

	December 31, 2016						
	Korea	USA	U.K.	France	China	Others	Total
Financial assets at fair value through profit or loss	₩ 3,368,003	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 3,368,003
Available-for-sale financial assets	13,062,285	1,026,872	204,784	14,178	19,853	443,203	14,771,175
Held-to-maturity financial assets	20,567,138	5,275,211	337,522	34,379	-	973,299	27,187,549
	₩ 36,997,426	₩ 6,302,083	₩ 542,306	₩ 48,557	₩ 19,853	₩ 1,416,502	₩ 45,326,727

	December 31, 2015						
	Korea	USA	U.K.	France	China	Others	Total
Financial assets at fair value through profit or loss	₩ 3,706,806	₩ -	₩ 22,903	₩ -	₩ -	₩ -	₩ 3,729,709
Available-for-sale financial assets	15,069,944	784,273	186,513	9,308	19,375	423,423	16,492,836
Held-to-maturity financial assets	19,741,821	2,140,255	157,493	33,423	-	787,276	22,860,268
	₩38,518,571	₩ 2,924,528	₩ 366,909	₩ 42,731	₩ 19,375	₩ 1,210,699	₩ 43,082,813

55-6) Market risk

55-6-1) Overview

Market risk is company incurring loss due to decrease in asset value caused by changes in market prices such as foreign exchange rates, interest rates and stock prices.

55-6-2) Measurement and management

The Group measures market risk using the standard model and the internal model. The standard model evaluates the market risk according to the fifth clause of Article 7-2 of the Regulation on Supervision of Insurance Business. One-year 99% VaR is utilized for the internal model. The Group mainly uses the delta-normal method that assumes normal distribution return rate and linear valuation. The Group also measures daily VaR based on simulation method as an assistance method.

55. Risk management (cont'd)

55-6) Market risk (cont'd)

55-6-2) Measurement and management (cont'd)

The market risk limit is set up based on VaR and monitored daily so that it stays below the annual market risk limit.

Other than VaR, the sensitivity indices, for instance, the duration and the beta are used as a supplementary market risk measurement. In order to supplement VaR measurement method, loss measurement is conducted under a variety of scenarios covering severe market condition such as IMF or financial economic crisis in 2008. The Group regularly reviews the impact of loss on profit or loss before dividends and RBC ratio and establishes countermeasure plan. In addition, the Group maintains adequate level of risk in holding equities by managing investment limit and foreign exchange translation hedge of asset group that influences market risk.
The Group sets limit per individual asset class by aggregating the exposure per individual asset which can be transferred to each book in order to prevent concentration of operating assets and promote soundness of assets held by the Group.

55-6-3) Group's market risk analysis

Sensitivity analysis of the effect of foreign exchange rate, interest rate and stock fluctuation on income and capital as of December 31, 2016 and 2015 is as follow (Korean won in millions):

	December 31, 2016		
	Risk factor	Income effect (*1)	Capital effect (*2)
Foreign exchange	₩100 increase in KRW/USD FX rate	₩ 2,987	₩ 928
	₩100 decrease in KRW/USD FX rate	(2,987)	(928)
Interest rate	100bp increase	(5,331)	10,461
	100bp decrease	5,331	(10,461)
Stock price	10% increase in equity index	-	54
	10% decrease in equity index	-	(54)

	December 31, 2015		
	Risk factor	Income effect (*1)	Capital effect (*2)
Foreign exchange	₩100 increase in KRW/USD FX Rate	₩ 5,019	₩ (7,228)
	₩100 decrease in KRW/USD FX Rate	(5,019)	7,228
Interest rate	100bp increase	(2,846)	6,940
	100bp decrease	2,846	(6,940)
Stock price	10% increase in equity index	-	-
	10% decrease in equity index	-	-

(*1) Net income before tax
(*2) Changes in accumulated other comprehensive income are calculated before adjusting policyholders' equity and allocating the deferred income tax.

55. Risk management (cont'd)

55-6) Market risk (cont'd)

55-6-4) Market risk analysis of Kyobo Securities

An analysis of VaR for trading portfolio held by Kyobo Securities for the periods ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Average	Maximum	Minimum	December 31, 2016
Equities	₩ 2,212	₩ 3,901	₩ 256	₩ 1,126
Interest rate	683	3,592	245	588
Foreign exchange	667	1,291	223	463
Portfolio diversification	-	-	-	614
Total VaR	₩ 2,801	₩ 6,143	₩ 991	₩ 1,563

	December 31, 2015			
	Average	Maximum	Minimum	December 31, 2015
Equities	₩ 1,986	₩ 3,521	₩ 894	₩ 1,807
Interest rate	563	1,192	288	429
Foreign exchange	391	936	6	56
Portfolio diversification	-	-	-	132
Total VaR	₩ 1,940	₩ 2,818	₩ 1,149	₩ 2,160

55-7) Liquidity risk

55-7-1) Overview

Liquidity risk is the risk of loss that the Group is unable to meet its payment obligations arising from financial liabilities as they fall due or raise funds with high interest rates and unfavorable disposal of securities to solve the shortage of funds or facing inability to pay due to unexpected cash flows.

55-7-2) Recognition and management

1) Management index of liquidity risk

Liquidity risk is measured by liquidity gap and liquidity ratio. Liquidity ratio is the percentage of the Group's assets transferrable to cash with the within 3 months maturities against claims paid for the past three months. This ratio measures the Group's appropriateness of its current asset volume. The Group maintains its liquidity ratio around 150% for the past 1 year which is grade 1 rating performed by Financial Supervisory Services.

55. Risk management (cont'd)

55-7) Liquidity risk (cont'd)

55-7-2) Recognition and management (cont'd)

Liquidity gap is the index representing shortage or oversupply of the cash flow within a month, a quarter, half a year, and more than a year. The Group calculates liquidity gap on a monthly or weekly basis and manages supply and demand schedule of the cash flow to ensure this index stays in positive.

2) Management

- Periodic establishment of plans for demand and supply of fund
  All cash flow information from financial assets and liability and insurance liability is gathered for liquidity risk management on a monthly or weekly basis to prepare for unforeseen cash flow surplus and deficit. And funds are daily checked if they flow by the schedule and any changes are reflected on the fund schedule.
  For the analysis of long-term cash flow projection of insurance liability, the Group utilizes ALM system. The Group prepares for unforeseen cash flow deficit caused by the concentrated number of maturities.

- Maintaining target liquidity fund level
  The Group keeps a certain amount of the liquidity fund to prepare for unexpected liquidity deficit. The level of liquidity fund is revised dynamically in line with trend of the financial market status and the volatility of claim payments.

- Liquidity contingency plan
  The Group sets a contingency plan to appropriately respond to emergency situation such as the massive claim of the cash payment in an economic crisis.

  Liquidity contingency plan defines an action plan regarding the priorities of funding, roles & responsibilities of each department and the form of the emergency committee. Simulated liquidity exercise under various possible scenarios is performed regularly so as to investigate and improve its contingency plans.

55. Risk management (cont'd)

55-7) Liquidity risk (cont'd)

55-7-3) Liquidity risk exposure (Korean won in millions):

	December 31, 2016					
	Less than 3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Insurance contracts and financial liabilities:						
Liabilities under insurance contracts	₩ 219,673	₩ 256,234	₩ 555,868	₩ 3,647,681	₩ 57,111,936	₩ 61,791,392
Financial liabilities designated at fair value through profit or loss (*1)	288,687	107,269	152,451	455,981	499,477	1,503,865
Trading liabilities	59,262	-	-	29,267	339,320	427,849
Derivative liabilities (*1)	140,286	132,562	273,300	408,559	177,666	1,132,373
Borrowings	1,262,225	2,301	113,895	89,980	-	1,468,401
Other financial liabilities	768,415	12,670	40,379	186,432	1,697	1,009,593
	₩ 2,738,548	₩ 511,036	₩ 1,135,893	₩ 4,817,900	₩ 58,130,096	₩ 67,333,473
Items outside of book (*2)						
ABCP purchase commitments	₩ -	₩ -	₩ 55,100	₩ 324,600	₩ 23,000	₩ 402,700
Loans, purchase commitments etc.	30,000	-	155,000	348,500	-	533,500
	₩ 30,000	₩ -	₩ 210,100	₩ 673,100	₩ 23,000	₩ 936,200

55. Risk management (cont'd)

55-7) Liquidity risk (cont'd)

55-7-3) Liquidity risk exposure (Korean won in millions) (cont'd):

	December 31, 2015					
	Less than 3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Insurance contracts and financial liabilities:						
Liabilities under insurance contracts	₩ 229,247	₩ 207,849	₩ 430,182	₩ 3,319,830	₩ 53,459,527	₩ 57,646,635
Financial liabilities designated at fair value through profit or loss (*1)	286,464	75,947	132,191	701,049	417,104	1,612,755
Trading liabilities	19,407	-	-	22,644	168,609	210,660
Derivative liabilities (*1)	56,559	55,256	269,872	378,547	24,938	785,172
Borrowings	1,900,800	2,306	20,402	196,451	-	2,119,959
Other financial liabilities	1,158,423	8,322	36,214	168,064	4,362	1,375,385
	₩ 3,650,960	₩ 349,680	₩ 888,861	₩ 4,786,585	₩ 54,074,540	₩ 63,750,566
Items outside of book (*2)						
ABCP purchase commitments	₩ -	₩ 10,000	₩ 106,500	₩ 455,300	₩ 23,000	₩ 594,800
CP gross underwriting commitments	-	-	150,000	-	-	150,000
Loans, purchase commitments etc.	-	112,000	134,000	314,900	-	560,900
	₩ -	₩ 122,000	₩ 390,500	₩ 770,200	₩ 23,000	₩ 1,305,700

(*1) Adjustments to Day 1 profit or loss and credit risk adjustments are excluded.
(*2) As described in Note 51-5, the purchase commitment is the maximum amount that the Group may pay in future by the contract. As of December 31, 2016, the Group expects that actual payment will be less than the commitment amount in consideration of past experiences and characteristics of commitment, and it is difficult to reasonably estimate the timing, amounts, and feasibility of actual payment.

56. Interests in unconsolidated structured entities

56-1) The nature, purposes and activities of the unconsolidated structured entities which the Group had interest in as of December 31, 2016, and how these structured entities are financed were summarized as follows:

Characteristics	Purposes	Activities	Financing methods
Asset securitization	(1) Encashment by transferring securitized assets (2) Investment fee collection by providing credit offering and ABCP purchase commitments to SPC	(1) Carrying out a plan to securitize assets (2) Taking over and collecting securitized assets (3) Issuing and redeeming ABS and ABCP	(1) Issuance of ABS and ABCP
Project financing	(1) Project financing loans for social overhead capital(SOC) and real estate (2) Lending loans to shipbuilding/airplane SPC	(1) Constructing social overhead capital and real estate (2) Manufacturing and purchasing shipbuilding/ airplanes	(1) Entering into loan commitments, credit offering and investment commitments (with credit line)
Investment fund	(1) Investment in beneficiary certificates (2) Investment in PEF and cooperatives	(1) Management and operation of fund assets (2) Payment of fund management fees and sharing of profits from asset management	(1) Sales of beneficiary certificates (2) Investment by general managers and limited liability partners

56. Interests in unconsolidated structured entities (cont'd)

56-2) Total assets of the unconsolidated structured entities, carrying value of equity and maximum exposure to loss related to the Group's interests in unconsolidated structured entities as of December 31, 2016 are as follows (Korean won in millions):

Type	Asset-backed securitization	Project financing	Investment fund	Total
Total assets of the unconsolidated structured entities	₩ 21,408,879	₩ 58,122,180	₩ 51,722,796	₩ 131,253,855
Carrying value of assets:				
Loans	200,010	4,847,728	1,640	5,049,378
Trading assets	-	-	633,786	633,786
Available-for-sale financial assets	1,229,896	4,330,279	1,388,785	6,948,960
Held-to-maturity financial assets	994,806	-	-	994,806
Other assets	4,900	27,010	1,634	33,544
	₩ 2,429,612	₩ 9,205,017	₩ 2,025,845	₩ 13,660,474
Maximum exposure to loss (*)	₩ 4,521,423	₩ 12,337,714	₩ 2,022,571	₩ 18,881,708
Deduction method of maximum exposure	Purchase commitment Credit offering	Investment commitment Loan commitment	Loan commitment	

(*) The maximum amounts exposed to losses included investment assets in the consolidated financial statements.

56-3) As of December 31, 2016, there was no financial support or any other support provided for consolidated or unconsolidated structured entities without contractual consideration.

Independent Auditors' Report

To the board of directors and shareholders
Kyobo Life Insurance Co., Ltd. and its subsidiaries

We have audited the accompanying consolidated financial statements of Kyobo Life Insurance Co., Ltd. (the Company) and its subsidiaries (collectively, the Group), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and consolidated statements of comprehensive income, consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Korean International Financial Reporting Standards (KIFRS), and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. 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 the auditors' 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kyobo Life Insurance Co., Ltd. and its subsidiaries as of December 31, 2015 and 2014, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Ernst & Young Han Young

March 4, 2016

This audit report is effective as of March 4, 2016, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Kyobo Life Insurance Co,. Ltd. and its subsidiaries
Consolidated statements of financial position
As of December 31, 2015 and 2014

(in Korean won)

	Notes	December 31, 2015	December 31, 2014
Assets			
Cash and due from banks	5,13,14	₩ 1,728,663,426,150	₩ 1,443,893,699,908
Financial assets designated at fair value through profit or loss	6,13,14	346,938,876,614	312,312,544,081
Trading assets	7,13,14	4,086,831,205,281	4,502,003,410,033
Derivative assets	13,14,31	190,887,299,670	179,090,993,267
Available-for-sale financial assets	8,13,14	22,682,618,754,443	22,147,556,370,673
Held-to-maturity financial assets	9,13,14	22,860,268,288,451	19,283,195,356,640
Loans	10,13,14	16,820,111,283,289	16,372,063,254,642
Other receivables	11,13,14	1,646,404,865,409	1,317,906,128,206
Investments in associates	12	106,440,717,230	105,571,569,051
Investment property	15	1,168,606,033,562	1,207,560,462,011
Property and equipment	16	1,349,693,425,200	1,329,983,011,923
Intangible assets	17	62,355,247,246	73,715,535,463
Deferred acquisition costs	18	1,959,213,667,705	2,056,754,124,232
Current tax assets	49	12,864,429,352	14,173,916,231
Deferred tax assets	49	6,518,697,491	5,315,252,534
Other assets	19	109,267,358,141	147,059,434,248
Non-current assets held-for-sale	20	-	1,516,880,319
Separate account assets	32	16,870,679,330,412	15,262,572,861,240
Total assets		**₩ 92,008,362,905,646**	**₩ 85,762,244,804,702**
Liabilities			
Liability under insurance contracts	21,23	₩ 59,651,658,037,605	₩ 55,742,982,501,475
Policyholders' equity adjustment	22	567,158,693,114	592,290,321,833
Financial liabilities designated at fair value through profit or loss	13,14,24	1,612,754,740,483	1,680,731,333,242
Trading liabilities	13,14,25	210,660,099,155	289,000,614,175
Derivative liabilities	13,14,31	779,289,386,040	554,326,343,286
Borrowings	13,14,26	2,094,276,343,633	2,297,037,897,514
Other financial liabilities	13,14,27	1,473,273,077,774	1,247,607,976,958
Provisions	28	26,940,723,306	23,138,734,832
Liability for defined benefit obligations	29	62,021,482,757	64,518,035,920
Current tax liabilities	49	56,118,729,167	42,935,678,396
Deferred tax liabilities	49	356,348,409,020	353,596,314,846
Other liabilities	30	242,987,496,416	246,608,054,636
Separate account liabilities	32	17,351,466,656,151	15,670,347,448,754
Total liabilities		**84,484,953,874,621**	**78,805,121,255,867**
Equity			
Capital stock	33	102,500,000,000	102,500,000,000
Capital surplus	33	436,621,782,024	437,955,714,615
Capital adjustments	33	(20,049,571,187)	(19,845,209,002)
Accumulated other comprehensive income	33	1,115,198,976,234	1,116,108,739,331
Retained earnings	33	5,551,911,193,668	5,016,837,677,297
Equity attributable to owners of the parent		**7,186,182,380,739**	**6,653,556,922,241**
Non-controlling interests	32	**337,226,650,286**	**303,566,626,594**
Total equity		**7,523,409,031,025**	**6,957,123,548,835**
Total equity and liabilities		**₩ 92,008,362,905,646**	**₩ 85,762,244,804,702**

The accompanying notes are an integral part of the consolidated financial statements

Kyobo Life Insurance Co,. Ltd. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2015 and 2014

(in Korean won)

	Notes	2015	2014
Operating revenues			
Premium income	33	₩ 7,835,627,455,027	₩ 8,078,032,534,853
Reinsurance income	34	86,363,085,289	86,858,066,240
Interest income	35	2,650,042,346,033	2,635,558,435,100
Gain on valuation and disposal of financial instruments	36	909,140,004,425	672,981,879,797
Gain on foreign currency transaction	46	560,932,636,806	289,619,709,455
Fees and commission income	37	234,414,930,228	147,489,934,866
Dividend income	38	265,920,102,119	178,105,842,882
Rental income	14	97,376,976,508	99,723,508,116
Separate account commissions earned		799,392,663,609	754,464,180,022
Separate account income	31	128,001,090,803	112,256,773,810
Other operating income	39	688,001,574,018	650,587,324,849
		14,255,212,864,865	13,705,678,189,990
Operating expenses			
Provision for liabilities under insurance contracts	20	3,862,922,692,012	4,395,866,818,466
Insurance claims paid	40	4,994,182,093,406	4,675,987,064,342
Reinsurance premium expenses	34	91,430,713,682	91,750,483,371
Insurance operating expenses	41	829,741,103,842	876,449,481,470
Amortization of deferred acquisition costs	17	866,867,904,385	909,937,037,481
Investment administrative expenses	42	104,808,837,467	116,972,784,234
Interest expenses	43	129,978,130,130	131,539,405,592
Loss on valuation and disposal of financial instruments	44	1,254,943,871,588	743,476,102,147
Loss on foreign currency transaction	46	94,439,700,133	66,738,501,824
Separate account commissions paid		25,653,675,206	25,915,652,290
Separate account expenses	31	128,001,090,803	112,256,773,810
Other operating expenses	45	957,068,480,256	905,075,959,178
		13,340,038,292,910	13,051,966,064,205
Operating income		**915,174,571,955**	**653,712,125,785**
Non-operating income	47	**23,263,819,205**	**32,665,767,857**
Non-operating expense	47	**60,967,796,982**	**57,174,476,837**
Net income before income taxes		**877,470,594,178**	**629,203,416,805**
Income tax expenses	48	**233,356,684,993**	**111,727,914,336**
Net income for the years		**₩ 644,113,909,185**	**₩ 517,475,502,469**

(Continued)

Kyobo Life Insurance Co,. Ltd. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2015 and 2014

(in Korean won)

	Notes	2015	2014
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Gain on valuation of available-for-sale financial assets	32	₩ 813,066,664	₩ 169,828,912,050
Gain on valuation of held-to-maturity financial assets	32	(4,895,896,231)	(5,728,287,725)
Gain (loss) on valuation of investments in associates	32	(50,233,542)	54,230,787
Gain on valuation of derivative instruments	32	9,354,950,128	33,120,907,318
Other comprehensive income (expense) in separate accounts	32	(4,056,232,333)	22,587,349,363
Foreign currency translation adjustments for foreign operations	32	(330,543,946)	144,729,939
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property and equipment	32	2,533,809,331	12,397,804,421
Remeasurement loss related to defined benefit obiligation	32	(2,846,568,040)	(14,952,983,628)
		522,352,031	**217,452,662,525**
Total comprehensive income for the period, net at tax		**₩ 644,636,261,216**	**₩ 734,928,164,994**
Net income for the years attributable to			
Controlling interests		₩ 607,850,057,703	₩ 505,249,503,848
Non-controlling interests		36,263,851,482	12,225,998,621
		₩ 644,113,909,185	**₩ 517,475,502,469**
Total comprehensive income attributable to			
Controlling interests		₩ 610,365,066,606	₩ 724,612,188,513
Non-controlling interests		34,271,194,610	10,315,976,481
		₩ 644,636,261,216	**₩ 734,928,164,994**
Earnings per share for controlling interests			
Basic and diluted earnings per share	52	₩ 29,651	₩ 24,646

The accompanying notes are an integral part of the consolidated financial statements

Kyobo Life Insurance Co,. Ltd. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2015 and 2014

(in Korean won)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other	Retained earnings	Controlling interest	Non-controlling	Total
January 1, 2014	**₩ 102,500,000,000**	**₩ 432,170,962,705**	**₩ (19,496,022,121)**	**₩ 908,597,152,773**	**₩ 4,556,457,200,805**	**₩ 5,980,229,294,162**	**₩ 299,524,969,663**	**₩ 6,279,754,263,825**
Comprehensive income	**-**	**-**	**-**	**-**	**505,249,503,848**	**724,612,188,513**	**10,315,976,481**	**734,928,164,994**
Profit for the year	-	-	-	-	505,249,503,848	505,249,503,848	12,225,998,621	517,475,502,469
Other comprehensive income	-	-	-	219,362,684,665	-	219,362,684,665	(1,910,022,140)	217,452,662,525
Gain (loss) on valuation of available-for-sale financial assets	-	-	-	170,972,197,859	-	170,972,197,859	(1,143,285,809)	169,828,912,050
Gain (loss) on valuation of held-to-maturity financial assets	-	-	-	(5,728,287,725)	-	(5,728,287,725)	-	(5,728,287,725)
Gain (loss) on valuation of investments in associates	-	-	-	54,230,787	-	54,230,787	-	54,230,787
Gain (loss) on valuation of derivative instruments	-	-	-	33,120,907,318	-	33,120,907,318	-	33,120,907,318
Other comprehensive loss in separate accounts	-	-	-	22,587,349,363	-	22,587,349,363	-	22,587,349,363
Foreign currency translation adjustments for foreign operations	-	-	-	144,729,939	-	144,729,939	-	144,729,939
Gain (loss) on revaluation of property and equipment	-	-	-	(28,093,177,920)	-	(28,093,177,920)	40,490,982,341	12,397,804,421
Remeasurement gain related to defined benefit plan	-	-	-	26,304,735,044	-	26,304,735,044	(41,257,718,672)	(14,952,983,628)
Transactions with owners	**-**	**5,784,751,910**	**(349,186,881)**	**-**	**(56,720,125,463)**	**(51,284,560,434)**	**(2,154,981,971)**	**(53,439,542,405)**
Annual dividends	-	-	-	-	(57,400,000,000)	(57,400,000,000)	-	(57,400,000,000)
Change in equities of subsidiaries	-	5,784,751,910	(349,186,881)	-	679,874,537	6,115,439,566	(2,154,981,971)	3,960,457,595
Others	**-**	**-**	**-**	**(11,851,098,107)**	**11,851,098,107**	**-**	**(4,119,337,579)**	**(4,119,337,579)**
December 31, 2014	**₩ 102,500,000,000**	**₩ 437,955,714,615**	**₩ (19,845,209,002)**	**₩ 1,116,108,739,331**	**₩ 5,016,837,677,297**	**₩ 6,653,556,922,241**	**₩ 303,566,626,594**	**₩ 6,957,123,548,835**
January 1, 2015	**₩ 102,500,000,000**	**₩ 437,955,714,615**	**₩ (19,845,209,002)**	**₩ 1,116,108,739,331**	**₩ 5,016,837,677,297**	**₩ 6,653,556,922,241**	**₩ 303,566,626,594**	**₩ 6,957,123,548,835**
Comprehensive income	**-**	**-**	**-**	**2,515,008,903**	**607,850,057,703**	**610,365,066,606**	**34,271,194,610**	**644,636,261,216**
Profit for the year	-	-	-	-	607,850,057,703	607,850,057,703	36,263,851,482	644,113,909,185
Other comprehensive income	-	-	-	2,515,008,903	-	2,515,008,903	(1,992,656,872)	522,352,031
Gain (loss) on valuation of available-for-sale financial assets	-	-	-	1,824,150,243	-	1,824,150,243	(1,011,083,579)	813,066,664
Gain (loss) on valuation of held-to-maturity financial assets	-	-	-	(4,895,896,231)	-	(4,895,896,231)	-	(4,895,896,231)
Gain (loss) on valuation of investments in associates	-	-	-	(56,992,945)	-	(56,992,945)	6,759,403	(50,233,542)
Gain (loss) on valuation of derivative instruments	-	-	-	9,354,950,128	-	9,354,950,128	-	9,354,950,128
Other comprehensive income in separate accounts	-	-	-	(4,056,232,333)	-	(4,056,232,333)	-	(4,056,232,333)
Foreign currency translation adjustments for foreign operations	-	-	-	(15,697,831)	-	(15,697,831)	(314,846,115)	(330,543,946)
Gain (loss) on revaluation of property and equipment	-	-	-	43,623,318,661	-	43,623,318,661	(41,089,509,330)	2,533,809,331
Remeasurement loss related to defined benefit obligation	-	-	-	(43,262,590,789)	-	(43,262,590,789)	40,416,022,749	(2,846,568,040)
Transactions with owners	**-**	**(1,333,932,591)**	**(204,362,185)**	**-**	**(76,887,053,332)**	**(78,425,348,108)**	**(611,170,918)**	**(79,036,519,026)**
Annual dividends	-	-	-	-	(76,875,000,000)	(76,875,000,000)	-	(76,875,000,000)
Change in equities of subsidiaries	-	(1,333,932,591)	(204,362,185)	-	(12,053,332)	(1,550,348,108)	(611,170,918)	(2,161,519,026)
Others	**-**	**-**	**-**	**(3,424,772,000)**	**4,110,512,000**	**685,740,000**	**-**	**685,740,000**
December 31, 2015	**₩ 102,500,000,000**	**₩ 436,621,782,024**	**₩ (20,049,571,187)**	**₩ 1,115,198,976,234**	**₩ 5,551,911,193,668**	**₩ 7,186,182,380,739**	**₩ 337,226,650,286**	**₩ 7,523,409,031,025**

The accompanying notes are an integral part of the consolidated financial statements

Kyobo Life Insurance Co,. Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2015 and 2014

(in Korean won)

	2015	2014
Operating activities		
Net income before income taxes	₩ 877,470,594,178	₩ 629,203,416,805
Adjustments for:		
Interest income	(2,650,042,346,033)	(2,635,558,435,100)
Interest expenses	129,978,130,130	131,539,405,592
Dividend income	(265,920,102,119)	(178,105,842,882)
	(2,785,984,318,022)	(2,682,124,872,390)
Other adjustments to reconcile net income to net cash provided by operating activities:		
Gain on valuation of trading assets, net	12,377,421,624	3,824,175,346
Loss on valuation of trading liabilities, net	4,535,758,866	865,339,351
Loss on valuation of financial assets designated at FVTPL, net	4,338,604,452	6,842,050,618
Gain (loss) on valuation of financial liabilities designated at FVTPL, net	(34,980,828,589)	(10,488,647,495)
Loss on valuation of derivative, net	394,037,928,362	214,145,782,331
Gain (loss) on disposal of derivative, net	89,015,315,699	(20,897,329,626)
Gain (loss) on disposal of available-for-sale financial assets, net	(190,371,907,541)	(157,697,698,633)
Impairment loss of available-for-sale financial assets	32,114,148,804	3,887,942,864
Gain on disposal of held-to-maturity financial assets, net	(603,938,947)	(95,297,240)
Gain on valuation and disposal of investments in associates, net	(13,924,780,265)	(5,890,699,189)
Provision for loan losses	22,038,830,502	20,082,020,450
Gain on foreign currency transaction, net	(471,539,902,130)	(227,342,490,167)
Amortization of deferred acquisition costs	866,867,904,385	909,937,037,481
Depreciation of investment property	11,493,695,395	11,214,742,425
Loss on sale of investment property and equipment, net	5,156,517,964	5,129,534,052
Impairment loss of investment property	5,277,947,904	4,173,667,286
Depreciation of property and equipment	35,801,023,335	39,314,185,072
Impairment loss of property and equipment	18,501,174,000	67,339,837
Gain on disposal of Intangible asset, net	(32,466,000)	(215,874,999)
Amortization of intangible asset	19,145,451,232	20,593,329,576
Impairment loss on intangible asset	269,181,756	461,139,325
Gain (loss) on disposal of non-current assets held-for-sale	542,822,406	(1,742,041,892)
Impairment loss of reinsurance ceded	2,504,546,509	4,080,632,452
Reversal of reinsurance ceded	(1,950,729,547)	(3,489,179,728)
Provision for other receivables	(901,760,530)	2,888,546,255
Severance benefits	44,361,855,481	145,171,609,200
Others	(317,154,618)	(323,908,355)
Provision for policy reserves	3,904,933,435,130	4,395,866,818,466
	4,758,690,095,639	5,360,362,725,063
Changes in operating assets and liabilities:		
Due from banks	38,052,783,561	(399,537,348,245)
Trading assets	433,002,462,044	(1,212,543,660,223)
Financial assets designated at FVTPL	(43,039,276,985)	59,226,418,313
Loans	(450,381,456,581)	(195,224,306,781)
Other receivables	(993,107,171,397)	39,626,671,798
Derivative assets	292,625,675,949	(1,233,369,137,299)
Deferred acquisition costs	(769,327,447,858)	(836,388,423,409)
Other assets	38,802,908,482	17,515,258,691
Separate account assets	(1,608,106,469,172)	(1,114,001,492,789)

(Continued)

Kyobo Life Insurance Co,. Ltd. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2015 and 2014

(in Korean won)

		2015		2014
Changes in operating assets and liabilities (cont'd)				
Financial liabilities designated at FVTPL	₩	(32,995,764,170)	₩	315,583,975,203
Trading liabilities		(82,876,273,886)		95,469,524,624
Derivative liabilities		(584,189,102,311)		1,408,939,164,205
Other financial liabilities		(983,314,349,491)		211,578,805,624
Provisions		3,638,530,500		(35,305,493,398)
Liabilities for defined benefit obligations		(63,517,043,928)		(140,381,071,515)
Other liabilities		(2,517,021,864)		41,644,831,992
Separate account liabilities		1,675,767,977,406		1,094,254,129,709
Foreign currency translation adjustments for foreign operations		(15,697,830)		144,729,939
		(3,131,496,737,531)		(1,882,767,423,561)
Income taxes paid		(217,502,233,661)		(152,702,459,827)
Interest received		3,277,040,704,635		2,419,254,458,459
Interest paid		(122,889,607,870)		(124,349,361,487)
Dividends received		265,148,784,161		180,299,418,159
Cash flows from operating activities		**2,920,477,281,529**		**3,747,175,901,221**
Investing activities				
Proceeds from disposal of derivatives held for hedging		46,318,788,523		1,525,989,316,025
Acquisition of derivatives held for hedging		(12,300,247,011)		(1,519,435,679,034)
Proceeds from disposal of available-for-sale financial assets		11,001,979,681,179		9,227,874,882,026
Acquisition of available-for-sale financial assets		(11,442,884,602,831)		(9,920,479,471,930)
Proceeds from disposal of held-to-maturity financial assets		891,948,419,403		2,526,932,300,627
Acquisition of held-to-maturity financial assets		(2,756,651,726,844)		(6,030,843,663,612)
Proceeds from disposal of investments in associates		141,060,082,699		10,826,037,002,482
Acquisition of investments in associates		(128,090,505,196)		(10,821,572,054,115)
Proceeds from disposal of property, equipment and investment property		2,051,262,386		4,573,404,245
Acquisition of property, equipment and investment property		(71,775,047,899)		(84,392,675,515)
Proceeds from disposal of intangible assets		1,675,945,523		2,311,924,625
Acquisition of intangible assets		(9,697,824,294)		(12,048,355,305)
Disposal of non-current assets held-for-sale		13,711,500,000		23,077,180,000
Increase in leasehold deposits		(13,696,964,922)		(40,955,032,033)
Decrease in leasehold deposits		26,652,670,307		44,284,391,189
Cash flows from investing activities		**(2,309,698,568,977)**		**(4,248,646,530,325)**
December 31, 2015				
Increase in rental deposits		10,000,219,485		17,132,844,166
Decrease in rental deposits		(4,948,968,874)		(16,314,990,667)
Dividends paid		(76,875,000,000)		(57,400,000,000)
Repayment for borrowings		9,900,000,000		(275,128,953,786)
Proceeds from borrowings		(222,088,094,289)		268,322,507,640
Increase (decrease) in non-controlling interest		(3,655,333,621)		(5,452,328,416)
Proceeds from stock purchase right		-		(5,118,500,000)
Cash flows from financing activities		**(287,667,177,299)**		**(73,959,421,063)**
Effect of exchange rate fluctuations on cash and cash equivalents held		**(289,025,450)**		**(6,177,130,358)**
Net decrease in cash and cash equivalents		**322,822,509,803**		**(581,607,180,525)**
Beginning of the year		**735,574,387,122**		**1,317,181,567,647**
End of the year (Note 5)	₩	**1,058,396,896,925**	₩	**735,574,387,122**

The accompanying notes are an integral part of the consolidated financial statements

1. Reporting entity

Kyobo Life Insurance Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

1-1) Controlling company

Kyobo Life Insurance Co., Ltd. (the "Company") was established on June 30, 1958, and primarily engages in the life insurance business as permitted by the Insurance Business Law of the Republic of Korea. The Company's head office is located at Jongno-ro, Jongno-gu, Seoul, Republic of Korea. As of December 31, 2015, the Company has 7 FP offices, 64 supporting offices, 546 branches in the Republic of Korea engaging in life insurance business and the related reinsurance contracts. The following table lists the number of currently available and discontinued insurance products as of December 31, 2015:

	Insurance Products		
Type	Available	Discontinued	Total
Individual annuity	18	80	98
Pure endowment	1	24	25
Death	35	169	204
Endowment	2	39	41
Group insurance	17	23	40
	73	335	408

1-2) Shareholders

As of December 31, 2015, the Company's major shareholders and their respective shareholdings are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
Chang-Jae Shin	6,925,474	33.78
Tiger Holdings LP	2,035,000	9.93
Corsair Korea Investors LLC	2,007,766	9.79
Guardian Holdings Limited	1,855,250	9.05
The Export-Import bank of Korea	1,199,001	5.85
KLI Investors LLC	1,092,165	5.33
Hoenir Inc.	1,071,125	5.23
KLIC Holdings Limited	1,071,125	5.23
Apfin Investment Pte Ltd	922,500	4.50
In-Jae Shin	518,600	2.53
AXA	460,000	2.24
Kyung-Ae Shin	350,002	1.71
Young-Ae Shin	289,992	1.41
Triumph II Investments (Ireland) Limited	220,000	1.07
Meiji Yasuda Life Insurance Company	205,000	1.00
Others	277,000	1.35
	20,500,000	100.00

1. Reporting entity (cont'd)

1-3) Subsidiaries – entities

	Location	Reporting date	Ownership (%) December 31, 2015	Ownership (%) December 31, 2014	Industry
Kyobo Securities Co., Ltd.	Korea	31-Dec	51.6%	51.6%	Stock brokerage
Kyobo Book Center Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Retail of books and Magazines
Kyobo Hottracks Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Retail of stationery
Kyobo Info. & Comm. Co., Ltd.	Korea	31-Dec	89.8%	89.8%	Software advisory and Development
Kyobo Realco Inc.	Korea	31-Dec	100.0%	100.0%	Non-residential property managements
Jeil Safety Service Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Safety service
KCA Claim Adjustment Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Service related to insurance and pension
Kyobo Data Center Co., Ltd.	Korea	31-Dec	100.0%	100.0%	Computers and office equipment leasing
Kyobo Life Planet Life Insurance Company	Korea	31-Dec	90.5%	86.8%	On-line life insurance
Kyobo Life Asset Management (America) Co., Ltd.	USA	31-Dec	100.0%	100.0%	Asset management
New High Yield D2 open end B-1	Korea	31-Dec	100.0%	100.0%	Beneficiary certificates
Consus BTL Private Special Asset Investment Trust1	Korea	31-Dec	57.2%	57.0%	Beneficiary certificates
Consus Hope BTL Private Special Asset Investment Trust 1	Korea	31-Dec	66.7%	67.0%	Beneficiary certificates
Consus New Energy Private Special Asset Investment Trust 2	Korea	31-Dec	68.8%	68.8%	Beneficiary certificates
KIAMCO SHIPPING Private Equity Special Asset Investment Trust KX-No.1	Korea	31-Dec	100.0%	100.0%	Beneficiary certificates
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	Korea	31-Dec	86.7%	-	Beneficiary certificates
IGIS KORIF Private Equity REIT No.12	Korea	31-Dec	100.0%	100.0%	Beneficiary certificates
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	Channel Islands	31-Dec	100.0%	-	Beneficiary certificates

1-4) Changes in subsidiaries for the year ended December 31, 2015 are as follows:

1) Newly acquired subsidiaries:

Company	Reason
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	Acquisition of investment
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	Acquisition of investment

1. Reporting entity (cont'd)

1-4) Changes in subsidiaries for the year ended December 31, 2015 are as follows (cont'd):

2) Excluded subsidiaries:

Company	Reason
Hanju New Credit Private Special Asset Investment Trust 10	Disposal of investment
Hanju New Credit Private Special Asset Investment Trust 11	Disposal of investment

1-5) Financial information of subsidiaries

1) Financial information of subsidiaries as of and for the year ended December 31, 2015 is as follows (Korean won in millions):

Company	Assets	Liabilities	Revenue	Net profit or loss	Total comprehensive income
Kyobo Securities Co., Ltd.	₩ 5,532,576	₩ 4,846,983	₩ 1,033,242	₩ 76,822	₩ 73,447
Kyobo Book Center Co., Ltd.	265,998	161,451	523,465	12,458	10,033
Kyobo Hottracks Co., Ltd.	37,488	23,299	77,521	5,917	5,130
Kyobo Info. & Comm. Co., Ltd.	15,451	5,846	41,965	966	576
Kyobo Realco Inc.	42,610	13,662	118,199	3,345	2,077
Jeil Safety Service Co., Ltd.	2,177	727	7,912	116	67
KCA Claim Adjustment Co., Ltd.	11,969	3,860	27,280	437	1,219
Kyobo Data Center Co., Ltd.	46,776	1,924	4,514	2,134	2,134
Kyobo Life Planet Life Insurance Company	64,676	14,597	10,925	(21,189)	(21,335)
Kyobo Life Asset Management (America) Co., Ltd.	3,802	42	310	33	33
New high yield D2 open end B-1	88	25	2	1	1
Consus BTL Private Special Asset Investment Trust1	49,854	21,337	2,655	1,325	1,325
Consus Hope BTL Private Special Asset Investment Trust 1	47,772	15,790	3,487	1,473	1,473
Consus New Energy Private Special Asset Investment Trust2	48,326	15,164	3,561	2,233	2,233
KIAMCO Shipping Private Equity Special Asset Investment Trust KX-No.1	17,537	5	977	927	927
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	43,615	6,007	2,747	792	792
IGIS KORIF Private Equity REIT No.12	17,063	1,074	1,261	1,136	1,136
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	59,107		1,125	1,125	272

1. Reporting entity (cont'd)

1-5) Financial information of subsidiaries (cont'd)

2) Financial information of subsidiaries as of and for the year ended December 31, 2014 was as follows (Korean won in millions):

Company	Assets	Liabilities	Revenue	Net profit or loss	Total comprehensive income
Kyobo Securities Co., Ltd.	₩ 5,673,750	₩ 5,058,135	₩ 730,143	₩ 29,859	₩ 26,168
Kyobo Book Center Co., Ltd.	294,682	197,840	524,540	10,160	8,076
Kyobo Hottracks Co., Ltd.	31,914	22,854	78,012	7,942	8,042
Kyobo Info. & Comm. Co., Ltd.	16,900	7,871	35,239	127	90
Kyobo Realco Inc.	36,192	8,821	99,819	3,021	2,743
Jeil Safety Service Co., Ltd.	2,189	806	8,204	180	16
KCA Claim Adjustment Co., Ltd.	11,594	4,705	27,601	1,090	(26)
Kyobo Data Center Co., Ltd.	44,517	1,799	4,019	2,154	2,154
Kyobo Life Planet Life Insurance Company	52,138	4,379	2,774	(16,659)	(16,706)
Kyobo Life Asset Management (America) Co., Ltd.	3,653	86	159	3	90
New high yield D2 open end B-1	113	32	1	1	1
Consus BTL Private Special Asset Investment Trust1	52,179	22,336	3,097	1,635	1,635
Consus Hope BTL Private Special Asset Investment Trust 1	50,270	16,628	3,739	1,784	1,784
Consus New Energy Private Special Asset Investment Trust2	76,964	24,075	5,071	3,164	3,164
Hanju New Credit Private Special Asset Investment Trust 10	7,472	1,923	943	632	632
Hanju New Credit Private Special Asset Investment Trust 11	7,112	1,866	685	479	479
KIAMCO Shipping Private Equity Special Asset Investment Trust KX-No.1	17,370	1	241	236	236
IGIS KORIF Private Equity REIT No.12	16,948	1,040	1,245	1,027	1,027

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These financial statements are consolidated financial statements prepared in accordance with Korean International Financial Reporting Standards (KIFRS), as prescribed in the Act on External Audits of Corporations in the Republic of Korea. The accompanying consolidated financial statements have

2. Basis of preparation and significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings classified as property, plant and equipment, derivative financial instruments, available-for-sale (AFS) financial assets, contingent consideration and non-cash distribution liabilities that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in Korean won (KRW) and all values are rounded to the nearest millions, except when otherwise indicated.

The Group's consolidated financial statements as of December 31, 2015 are scheduled to be approved by the Board of Directors on March 4, 2016.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. Basis of preparation and significant accounting policies (cont'd)

2.2 Basis of consolidation (cont'd)

If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss

Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Significant accounting policies

2.3.1 Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of comprehensive income statement outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.1 Investment in associates and joint ventures (cont'd)

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of profit of an associate and a joint venture' in the statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.3.2 Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.2 Fair value measurement (cont'd)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.3.3 Foreign currencies

The Group's consolidated financial statements are presented in Korean won, which is also the Group's functional currency.

1) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.3 Foreign currencies (cont'd)

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed, at which time, the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

2) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

2.3.4 Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgments, estimates and assumptions and provisions for further information about the recorded decommissioning provision.

However, the Group applied KIFRS No.1101 "initial adoption of Korean International Financial Reporting Standards" to a part of land, evaluated the land at fair value as of the date of conversion specified in the KIFRS, and used it as a deemed acquisition cost.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.4 Property, plant and equipment (cont'd)

The estimated useful lives and depreciation methods of the Group's property and equipment are as follows:

	Useful lives	Depreciation method
Buildings	50 years	Straight-line
Structures	50 years	Straight-line
Vehicles	5 years	Declining-balance
Equipment	5 years	Declining-balance
Estimated restoration assets	5 years	Declining-balance

2.3.5 Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Investment property are depreciated on a basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The estimated useful lives and depreciation methods of the Group's Investment properties are as follows:

Description	Useful lives	Depreciation method
Buildings	50 years	Straight-line
Structures	50 years	Straight-line

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period and accounted for on a prospective basis in case of the effect of any changes in estimation.

2.3.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.6 Intangible assets (cont'd)

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

	Useful lives
Software	5 years
Development costs	5 years
Other intangible assets	5 years
Membership	Indefinite

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate that the technical feasibility of completing the intangible asset so that the asset will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset, the ability to measure reliably the expenditure during development and the ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.7 Inventories

Inventories are valued at the lower of cost and net realizable value.

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in OCI, in respect of the purchases of raw materials.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.3.8 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.8 Impairment of non-financial assets (cont'd)

The following assets have specific characteristics for impairment testing:

1) Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2) Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.3.9 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

2.3.10 Financial instruments – initial recognition and subsequent measurement

(1) Financial assets

1) Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

For purposes of subsequent measurement financial assets are classified in four categories:

2) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (FVTPL) include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by KIFRS 1039. The Group has not designated any financial assets at FVTPL.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL.

3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

4) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of comprehensive. The losses arising from impairment are recognized in the statement of comprehensive income as finance costs.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

5) Available-for-sale (AFS) financial assets

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the AFS reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive income in finance costs. Interest earned while holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

6) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

(2) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

2) Available-for-sale (AFS) financial investments

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income – is removed from OCI and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(3) Financial liabilities

1) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, derivative financial instruments.

Subsequent measurement of financial liabilities differs based on the classification of financial liabilities.

2) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.10 Financial instruments – initial recognition and subsequent measurement (cont'd)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1039. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of comprehensive income. Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in KIFRS 1039 are satisfied. The Group has not designated any financial liability as at FVTPL.

3) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

(4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

2.3.11 Derivative financial instruments and hedge accounting

(1) Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps to hedge its foreign currency risks, interest rate risks respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.11 Derivative financial instruments and hedge accounting (cont'd)

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

1) Fair value hedges

The change in the fair value of a hedging derivative is recognized in the statement of comprehensive income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of comprehensive income as finance costs.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit and loss.

2) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of comprehensive income as other operating expenses. Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.11 Derivative financial instruments and hedge accounting (cont'd)

When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

3) Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as OCI while any gains or losses relating to the ineffective portion are recognized in the statement of comprehensive income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of comprehensive income.

2.3.12 Non-current assets and disposal groups held for sale

The Group classifies non-current assets and disposal groups as held-for-sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. And assets and liabilities classified as held-for-sale or for distribution are presented separately as current items in the statement of financial position.

Assets and liabilities are not depreciated or amortized once classified as held-for-sale or as held for distribution.

2.3.13 Employee benefits

The Group operates a defined benefit pension plan in Korea, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:
- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs or redundancy payments

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under 'cost of sales', 'operating and administrative expenses' and 'asset management expenses' in consolidated statement of comprehensive income.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.13 Employee benefits (cont'd)

(1) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(2) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in profit and loss when incurred.

If the net amount that is calculated by subtracting the fair value of the plan assets from the present value of the defined benefit pension plans is an asset, the Group measures at lower of an excess contribution to the defined benefit pension plans or the upper limit recognized as an asset that is calculated by using the interest rate of the corporate bonds of a blue chip company at the end of an annual reporting period.

(3) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(4) Other benefits for the vested employees

Other benefits for the vested employees who have rendered services for a long-term period of time with regard to considerations for the employees who have rendered services for a long period of time, if the employees' benefits are not expected to be paid within 12 months after the end of an annual reporting period, the Group recognizes the net sum of service costs for long-term services and net interests on net defined benefit liabilities (assets) as a current profit or loss.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.13 Employee benefits (cont'd)

(5) Redundancy payments

The Group recognizes an expense for termination benefits when an employee accepts the offer or when a restriction on the Bank's ability to withdraw the offer takes effect.

If employees are laid off upon a request from the Group, the Group can give more retirement benefits in comparison to when the employees voluntarily leave the Group. With regard to the redundancy payment that is a difference between the amount that the Group pays to the employee who voluntarily leaves the Group and the amount that the Group pays to the employee who is dismissed by the Group, the Group recognizes the liability and the expense of the redundancy payment earlier of when the Group cannot withdraw a proposal for the redundancy payment or when it recognizes restructuring costs accompanied by the redundancy payment.

2.3.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

2.3.15 Deferred acquisition costs

Acquisition costs arising from long-term contracts, excluding any excess amount over expected acquisition costs, are deferred and amortized over the premium payment period or seven years, whichever is shorter. For cancellations, any unamortized portion is written off immediately.

The Group amortizes an amount that exceeds the difference between net level premium reserve and surrender value level premium reserve.

2.3.16 Classification of insurance contracts

The Group recognizes a contract as an insurance contract if under the contract one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Group assesses representative contract's insurance risk of an insurance product considering the claims paid when the insured event occurs or does not occur. If a contract is exposed to financial risk without significant insurance risk, the contract is classified as an investment contract.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.16 Classification of insurance contracts (cont'd)

Financial risk is the risk of a possible future change in one or more specified interest rates, financial instrument prices, commodity prices, foreign exchange rates, index of prices or rates, credit rating or credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

The Group applies "KIFRS 1104 Insurance Contracts" for insurance contracts and investment contracts with discretionary participation features. Investment contracts with no discretionary participation features are accounted for in accordance with "KIFRS 1039 Financial Instruments: Recognition and Measurement".

A contract that was initially qualified as an insurance contract remains to be classified as insurance contract until all rights and obligations are extinguished or expired. However, the Group reclassifies an investment contract to an insurance contract if insurance risk becomes significant.

2.3.17 Insurance contracts liabilities

The Group provides various policy reserves in accordance with the Insurance Business Act, relevant regulations and the terms and conditions in insurance contracts as follows:

(1) Premium reserve

Premium reserve is a liability to prepare claims paid for the outstanding claims. Premium reserve is calculated by deducting discounted net premium from the discounted claims paid expected to be paid in the future period.

(2) Reserve for unearned premium

Reserve for unearned premium is made for the portion of insurance premiums received which do not pertain to the current period.

(3) Guarantee reserve

Guarantee reserve is recorded in order to guarantee insurance proceeds and other payments to be no less than a specified level considering the expected loss in the future.

(4) Reserve for outstanding claims

Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the date of statement of financial position but for which a fixed value cannot be determined, which includes the following:

- Estimated amount: The expenses to be incurred in the course of settlement of the insured event, such as lawsuit or arbitration (if partial amount is settled, the remainder is recognized.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Insurance contracts liabilities (cont'd)

- Reserve for ineffective contracts: Reserve for ineffective contracts due to default in premium payment (Partial amount of surrender value)
- Unpaid claims: The amount of claims, surrender value and dividend to be paid is determined but not paid yet
- IBNR (Incurred But Not Reported): Estimated amount using a reasonable statistical method considering the Group's experience rate

(5) Reserves for participating policyholder's dividends

Reserves for participating policyholder's dividends comprise reserve for guaranteed dividend, reserve for mortality dividend, reserve for interest dividend, reserve for expense dividend, reserve for long term duration and reserve for revaluation dividends.

The Group calculates each reserve for the participating policyholders' dividends by the methods described below:

- Reserve for guaranteed dividend:
A reserve to compensate for the difference between expected rate of interest and the average interest rate of time deposit for the reporting period. The Group records this reserve only for the contracts which were initiated before October 1, 1997.

- Reserve for mortality dividend:
A reserve to compensate for the difference between expected mortality rate and actual mortality rate. The Group has been recording this reserve only for the contracts which are or are expected to be effective for more than a year as of the reporting date, excluding nonparticipating policies, since 1983.

- Reserve for interest dividend:
A reserve to compensate for the difference between expected interest rate of each insurance product and dividend benchmark rate. The Group has been recording this reserve only for the contracts that are or are expected to be effective for more than a year from the reporting date, excluding nonparticipating policies, since 1987. However, the interest dividends from reserve insurance sold after October 1, 1997 are based on the expected rate deducted from the interest dividends.

- Reserve for expense dividend:
A reserve to compensate for the difference between expected operation expense rate and expense dividend benchmark rate. The Group has been recording this reserve only for the contracts which are or are expected to be effective for more than a year as of the reporting date, excluding nonparticipating policies, since 2001.

- Reserve for long-term duration dividend:
A reserve for the long-term maintained contracts which is calculated by the following formula are as follow; (Net level premium reserve of prior reporting period - Deferred acquisition costs) * {0.1% + (Number of years passed - 6} * 0.02%)

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.17 Insurance contracts liabilities (cont'd)

The Group has been recording this reserve only for the contracts that remain for more than six years as of the reporting date, excluding nonparticipating policies, since 1987.

- Reserve for revaluation dividends:
A reserve for the participating policy holder's portion of asset revaluation surplus for land and building in accordance with Asset Revaluation Law in 1990. The Group records this reserve only for the contracts that remained for more than two years from March 31, 1989 and more than one year from March 31, 1999, respectively.

(6) Dividend reserve for policyholders' income participation

Dividend reserve for policyholders' income participation refers to the amount to be reserved, in lump sum and depending on the business performance, for the purpose of distributing reserves after paying stockholders as future dividends to policyholders or for additional accumulation as part of policy reserve other than the reserve for policyholders' dividend. In accordance with the Supervisory Regulation, it is used as a reserve for policyholders' dividends and required to be used at least within five years from the end of the year of appropriation.

(7) Reserve for losses on dividend insurance contract

In accordance with the Regulation on Supervision of Insurance Business, the Group accumulates reserve for losses of participating insurance contract within 30/100 of policyholders' share in dividend-paying insurance income. A reserve for compensation for losses on dividend-paying insurance contracts accumulated shall be used for replenishing the losses of the participating insurance contract, and the balance after the replenishment shall be used as for the source of policyholders' dividend for individual policyholders, for five fiscal years from the end of the fiscal year when the accumulation is made.

2.3.18 Reinsurance

The Group cedes insurance risk by reinsurance agreements with reinsurers. Reinsurance assets represent recoverable amounts due from reinsurance companies.

Reinsurance assets are reviewed for impairment at each reporting date. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in profit or loss in consolidated statements of comprehensive income.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.19 Liability adequacy test

The Group assesses at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire difference shall be recognized in profit or loss.

The Group applies the liability adequacy test that meets specified minimum requirements by KIFRS 1104. The minimum requirements are the following:

- The test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.
- If the test shows that the liability is inadequate, the entire difference is recognized in profit or loss.

2.3.20 Separate accounts

The Group carries separate accounts for retirement insurance, retirement pension and variable life insurance products according to the provision in the Korean Insurance Business Law. The separate account assets (liabilities) are stated at net of accounts payable and accounts receivable in general account incurred in the course of transactions between general accounts and separate accounts.

Revenues and expenses of investment-linked type separate account are not presented in the general account statement of operations, while the revenues and expenses of guaranteed-interest type separate account are accounted for in the general account statement of operations in gross amounts as separate account income and separate account expense, respectively.

2.3.21 Trust accounts

The Group obtained the authorization to operate a trust business from the Financial Service Commission and operates its trust business. In accordance with the regulation on trust business, trust estates recognized as separate accounts and trust fee related to operating, administration and disposal of trust estates is recognized as trust fee in operating revenue.

2.3.22 Policyholders' equity adjustment

Policyholders' equity adjustments consist of reserves for stabilization of participating policyholders' dividends, reserves for social contributions and net gain (loss) from valuation of investment securities. The stabilization reserves for participating policy holders' dividends and reserves for social contributions funds are the amounts reserved for future dividends to participating policyholders and future social contributions through asset revaluation surplus for land and building in accordance with Asset Revaluation Law.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.22 Policyholders' equity adjustment (cont'd)

Unrealized holding gains or losses on available-for-sale securities, on held-to-maturity securities and on valuation of investment in associates and subsidiaries are allocated to policyholder's equity adjustment using the current year's ratio of policyholders' equity and shareholders' equity.

2.3.23 Reserves for unpaid life insurance policy benefit

Pursuant to the unrestricted management of reserves for unpaid life insurance policy benefit by Financial Supervisory Services (FSS), the Group pays life insurance policy benefits at the request of a policyholder even if the legitimate obligation to pay has expired.

2.3.24 Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

2.3.25 Recognition of revenue and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group recognizes the income when the followings criteria are met.

(1) Premium income

Premium income revenue is recognized at the time when such premium payment becomes due. If premium income is received before the premium due date, the Group records unearned insurance premium based on calendar period calculation.

(2) Interest income and interest expense

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.25 Recognition of revenue and expenses (cont'd)

(3) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Fees and commission expense which relate mainly to transaction and service fees, are expensed as the services are rendered.

(4) Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

(5) Rendering of services

Revenue from services rendered is recognized in profit or loss when recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, in proportion to the stage of completion of the transaction at the reporting date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

(6) Dividends

Revenue is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

(7) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature.

2.3.26 Current and deferred income tax

(1) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.26 Current and deferred income tax (cont'd)

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

(2) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:
- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

2. Basis of preparation and significant accounting policies (cont'd)

2.3 Significant accounting policies (cont'd)

2.3.26 Current and deferred income tax (cont'd)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.3.27 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The loan or assistance is initially recognized and measured at fair value and the government grant is measured as the difference between the initial carrying value of the loan and the proceeds received.

2.4 Changes in accounting policies and disclosures

2.4.1 Changes in accounting policies and disclosures

The nature and the effect of these changes are disclosed below. Although these new standards and amendments were applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

Amendments to KIFRS 1019 Defined Benefit Plans: Employee Contributions

KIFRS 1019 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014.

This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

2.4.1 Changes in accounting policies and disclosures (cont'd)

Annual Improvements 2010-2012 Cycle

These improvements are effective for annual periods beginning on or after July 1, 2014. The Group has applied these improvements for the first time in these financial statements. These amendments do not have any impact on the Group.

KIFRS 1102 'Share-based payment'

This amendment is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The Group does not have share-based payment agreement and thus this amendment does not have impact on the Group's accounting policies.

KIFRS 1103 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of KIFRS 1039. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

KIFRS 1108 Operating Segments

The amendments are applied retrospectively and clarify that:

• An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of KIFRS 1108, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'

• The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group is not subject to disclosure of operating segment and thus the amendments do not have impact on its accounting policies.

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

2.4.1 Changes in accounting policies and disclosures (cont'd)

KIFRS 1016 Property, Plant and Equipment and KIFRS 1038 Intangible Assets

The amendment is applied retrospectively and clarifies in KIFRS 1016 and KIFRS 1038 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. There are no revaluation adjustments recorded by the Group during the current period.

KIFRS 1024 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

KIFRS 1103 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within KIFRS 1103 that:

- Joint arrangements, not just joint ventures, are outside the scope of KIFRS 1103
- This scope exception applies only to the accounting in the financial statements of the joint arrangement

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group.

KIFRS 1113 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in KIFRS 1113 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of KIFRS 1039. The Group does not apply the portfolio exception in KIFRS 1113

KIFRS 1040 Investment Property

The description of ancillary services in KIFRS 1040 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively

2. Basis of preparation and significant accounting policies (cont'd)

2.4 Changes in accounting policies and disclosures (cont'd)

2.4.1 Changes in accounting policies and disclosures (cont'd)

and clarifies that KIFRS 1103, and not the description of ancillary services in KIFRS 1040, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on KIFRS 1103, not KIFRS 1040, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

3. Significant accounting judgments, estimates and assumptions

3.1 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

(1) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(2) Impairment on loans and receivables

Individual and collective allowance for doubtful accounts is calculated to assess impairment on loans and receivables. When individual allowance for doubtful accounts. When individual allowance for doubtful accounts is calculated, expected recoverable amount is calculated by estimated future cash flows considering borrowers' sales or collateral. In addition, when the collective allowance for doubtful accounts is calculated, default rates, duration of loss and loss rates at bankruptcy are estimated based on historical impairment.

(3) Impairment of non-financial assets

The Group tests non-financial assets for impairment at the end of every reporting period. The intangible assets with goodwill and indefinite useful lives are tested for impairment whenever there is

3. Significant accounting judgments, estimates and assumptions (cont'd)

3.1 Estimates and assumptions (cont'd)

an indication that the intangible asset may be impaired. Other non-financial assets are tested for impairment whenever there is an indication that the carrying value cannot be recovered. The value in use calculation is based on the management's assumption on future expected cash flows generated from CGU or asset. For the calculation of present value of future expected cash flows, adequate discount rate should be chosen.

(4) Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies

(5) Development costs

Development costs are capitalized in accordance with the accounting policy as mentioned in Note 2.2. Initial capitalization of costs is based on management's judgment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

(6) Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'A+' rating or above, as set by an internationally acknowledged rating agency. The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

(7) Provision for decommissioning

The Group has recognized a provision for decommissioning obligations associated with a leased building. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to dismantle and remove the plant from the site and the expected timing of those costs.

3. Significant accounting judgments, estimates and assumptions (cont'd)

3.1 Estimates and assumptions (cont'd)

(8) Income tax

There are different kinds of transactions and calculation methods which make final tax determination uncertain. Based on an estimate of the additional taxes to be imposed, if there is a difference between final tax amount and initially recognized tax amount, the difference will affect current income tax and deferred income tax assets and liabilities at the period when such determinations is made.

(9) Surtax on undistributed corporate earnings
The Group shall pay an additional surtax where the use of corporate earnings on qualifying investments, wage increase and dividend payments fall below a certain portion of its taxable income for 3 years from 2015. As the Group considers the surtax on its undistributed earnings when computing its corporate income tax, the Group's income tax may change arising from changes in investment, wage growth, or dividend payouts.

(10) Liability Adequacy test

The Group recognizes the shortfall as its loss by assessing the adequacy of insurance liability. In order to estimate the cash flow anticipated to occur from the current insurance contract, reasonable anticipation of cash inflows including premium income and that of cash outflows including insurance, refund, reserve, expenses etc. is required. For this purpose, return on investment, ratio of risk, ratio of cancellation and expense rate use the presumptions considering the experience of the past and the trend of the future. The long-term insurance uses the discount rate reflecting the past experience and the current market information in order to calculate the future cash flow into the current value. Also, adequacy of individually estimated claims is assessed for reserves by selecting the most adequate model according to the trend of claims paid among various statistical methods. The Group applies the selected presumption consistently by subdividing by the same or similar products.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

KIFRS 1109 Financial Instruments

The KASB issued the final version of KIFRS 1109 Financial Instruments that replaces KIFRS 1039 Financial Instruments: Recognition and Measurement and all previous versions. KIFRS 1109 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. KIFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date, which is annual period beginning on or after January 1, 2021.

4. Standards issued but not yet effective (cont'd)

KIFRS 1115 Revenue from Contracts with Customers

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is in the process of reviewing the impact of the standards on its financial statements and plans to adopt the new standard on the required effective date using the full retrospective method.

Amendments to KIFRS 1111 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to KIFRS 1111 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant KIFRS 1103 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to KIFRS 1111 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.
The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's financial statements.

Amendments to KIFRS 1016 and KIFRS 1038: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in KIFRS 1016 and KIFRS 1038 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to KIFRS 1016 and KIFRS 1041 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of KIFRS 1041. Instead, KIFRS 1016 will apply. After initial recognition, bearer plants will be measured under KIFRS 1016 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of KIFRS 1041 measured at fair value less costs to sell. For government grants related to bearer plants, KIFRS 1020 Accounting for Government Grants

4. Standards issued but not yet effective (cont'd)

and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

5. Cash and due from banks

5-1) Cash and cash equivalent as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Cash on hand	₩	1,583	₩	1,707
Current deposits		2,397		29,380
Demand deposits		206,269		156,614
MMDA		758,193		462,532
Other deposits		89,955		85,342
	₩	1,058,397	₩	735,575

5-2) Due from banks as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Time deposits	₩	30,477	₩	359,022
Future transactions deposits		101,334		7,686
Reserve for claims of customers' deposits		83,500		153,500
Others		454,955		188,111
	₩	670,266	₩	708,319

5-3) Bank deposits with withdrawal restrictions as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014		Details
Guarantee deposits for checking accounts	₩	63	₩	58	Guarantee deposits for checking accounts.
Future transactions deposits		101,334		7,476	In relation to derivatives
Others		24,579		-	Customers' deposits of overseas futures FX margin, deposits for loan transactions.
Reserve for claims of customers' deposits, etc		85,588		161,161	Reserve for return of customer deposits, etc.
	₩	211,564	₩	168,695	

6. Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Hybrid financial instruments		
Overseas securities	₩ 59,420	₩ -
Equity-linked securities	35,077	93,890
Other embedded derivatives	4,791	59,509
Derivative embedded bonds	32,545	50,631
Earnings adjustment on the date of transaction	(97)	(180)
	131,736	203,850
Valuation and management of fair value		
Reserve for claims of customers' deposits (*)	215,203	108,462
	₩ 346,939	₩ 312,312

(*) Under the Finance Investment Services Act, the security companies are required to create a reserve for claims of customers' deposits. Accordingly, the Group has reserved for trustees' deposits, demand deposits and conditional deposits and reserves for claim of customers' deposits to Korea Securities Finance Corporation (KSFC) at over 100% of the minimum required amount for the payment of customers' deposits.

7. Trading assets

7-1) Trading assets as of December 31, 2015 and 2014 are as follows (Korean won in millions) :

	December 31, 2015	December 31, 2014
Equity securities:		
Stocks	₩ 65,284	₩ 83,719
Money market fund	638,777	1,104,659
	704,061	1,188,378
Debt securities:		
Government and public bonds	438,567	489,638
Special bonds	667,067	835,881
Financial institutions bonds	1,264,734	1,054,308
Corporate bonds	414,186	579,945
Overseas securities	534,609	175,444
Other securities	63,607	178,409
	3,382,770	3,313,625
	₩ 4,086,831	₩ 4,502,003

7. Trading assets (cont'd)

7-2) Trading assets pledged as collaterals as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014		Collaterals to
Collateral for derivatives	₩	-	₩	519,049	KSFC, etc.
Repurchase agreements		2,646,289		2,006,072	KSFC, etc.
	₩	2,646,289	₩	2,525,121	

8. Available-for-sale financial assets

8-1) Available-for-sale financial assets as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Equity securities :				
Listed share	₩	635,829	₩	725,219
Unlisted share		559,109		630,082
Equity investments		123,100		114,637
Beneficiary certificates		3,788,445		3,049,994
Overseas securities		1,044,810		1,273,254
Other securities		38,490		25,257
		6,189,783		5,818,443
Debt securities :				
Government and public bonds	₩	6,117,177	₩	5,724,011
Special bonds		6,357,961		6,698,251
Financial institutions bonds		177,890		93,716
Corporate bonds		2,170,675		2,264,879
Overseas securities		1,658,527		1,548,256
Other securities		10,016		—
		16,492,836		16,329,113
	₩	22,682,619	₩	22,147,556

The fair values of domestic currency debt securities and foreign currency debt securities of available-for-sale financial assets are based on the average prices of base prices on the latest business day, which are provided by Korea Asset Pricing (KAP) and KIS Pricing Inc. The fair values of unlisted stocks and investment, of which the posted prices are not available in an active market, are calculated, based on appraised values in the appraisal reports of Korea Asset Pricing.

8. Available-for-sale financial assets (cont'd)

8-2) Gain on valuation of available-for-sale securities accounted for as accumulated other comprehensive income and policyholder's equity adjustments for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Gain on valuation of available-for-sale securities	₩	934,346	₩	950,730
Amount allocated to Policyholder's equity adjustment		249,321		268,112
Amount allocated to deferred income tax liabilities		165,776		165,194
Amount allocated to accumulated other comprehensive income		519,249		517,425

8-3) Impairment loss on available-for-sale financial assets for the years ended December 31, 2015 and 2014 are ₩32,114 million and ₩3,887 million, respectively.

8-4) Available-for-sale financial assets pledged as collaterals as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014		Purpose
Barclays Bank etc	₩	130,345	₩	262,768	Collateral for derivatives
KSFC, etc.		159,940		161,566	Repurchase agreements
	₩	290,285	₩	424,334	

8-5) As the Group changed its intention to hold securities in 2015, ₩213,941 million was reclassified from available-for-sale financial assets evaluated at fair value to held-to-maturity securities measured at amortized cost.

9. Held-to-maturity financial assets

9-1) Held-to-maturity financial assets as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Government and public bonds	₩	9,947,224	₩	9,394,032
Special bonds		5,590,901		5,472,691
Financial institutions bonds		582,754		573,192
Corporate bonds		1,180,115		1,106,821
Foreign securities		5,559,274		2,736,459
	₩	22,860,268	₩	19,283,195

9. Held-to-maturity financial assets (cont'd)

9-2) Gain and loss on valuation of held-to-maturity securities accounted for as accumulated other comprehensive income and policyholder's equity adjustment for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Gain on valuation of held-to-maturity securities (*)	₩ 75,022	₩ 70,145
Amount allocated to policyholder's equity adjustment	26,195	14,858
Amount allocated to deferred income tax liabilities	11,816	13,379
Amount allocated to accumulated other comprehensive income	37,011	41,907

(*) There was an increase of ₩17,240 million as a result of the reclassification and a decrease of ₩12,363 million due to amortization.

9-3) Held-to-maturity securities pledged as of December 31, 2015 and 2014 are as follows (Korean won in millions):

Purpose	December 31, 2015	December 31, 2014	
Collateral for derivatives	₩ 597,107	₩ 297,774	Morgan Stanley etc.

10. Loans

10-1) Loans as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Call loans	₩ 1,100	₩ 58,000
Policy loans	5,819,259	5,907,582
Loans secured by investment securities	263,335	217,945
Loans secured by real estate	4,242,217	3,822,144
Unsecured loans	5,831,607	5,800,993
Loans secured by third party guarantees	597,070	498,362
Other loans	143,521	140,438
	₩ 16,898,109	₩ 16,445,464
Present value discount	(1,222)	(1,446)
Deferred loan origination costs and fees	13,978	12,461
Allowance for loan losses	(90,754)	(84,416)
	₩ 16,820,111	₩ 16,372,063

10. Loans (cont'd)

10-2) Changes in allowance for loan losses for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Beginning balance	₩ 84,416	₩ 79,186
Provision for loan losses	21,260	19,021
Write-off	(28,911)	(28,695)
Unwinding effect	(411)	(371)
Recovery of bad debts	14,400	15,275
Ending balance	₩ 90.754	₩ 84,416

10-3) Changes in deferred loan origination costs and fees for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Beginning balance	₩ 12,461	₩ 13,171
Loan originations	21,575	6,553
Amortization	(20,058)	(7,263)
Ending balance	₩ 13,978	₩ 12,461

11. Other receivables

11-1) Details of other receivables as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Premiums transferred automatically	₩ 3,570	₩ 3,824
Insurance settlement adjustments	992	1,094
Reinsurance receivables	46,318	44,922
Other insurance receivables	21,704	22,025
Insurance receivables	72,584	71,865
Accounts receivables	447,288	261,924
Guarantee deposits	130,499	136,732
Accrued income	994,289	857,100
Others	41,644	35,423
	1,686,304	1,363,044
Present value discount	(7,440)	(9,067)
Allowance for other receivables	(32,459)	(36,071)
	₩ 1,646,405	₩ 1,317,906

11. Other receivables (cont'd)

11-2) Changes in the allowance for other receivables for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

		2015		2014
Beginning balance	₩	36,071	₩	32,696
Provision for other receivables		(123)		3,950
Write-off		(3,490)		(575)
Recovery of bad debts		1		-
	₩	32,459	₩	36,071

12. Investments in associates

12-1) Investments in associates and jointly controlled entities as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

			December 31, 2015			December 31, 2014		
	Country	Reporting date		Book Value	Owner ship (%)		Book value	Owner ship (%)
Associates								
A&D Credit Information Co.,Ltd.(*2)	Korea	December 31	₩	2,998	19.5	₩	2,945	19.5
Kocref No.8 (*2)	Korea	December 31		-	-		2,751	6.7
Kocref No.14 (*1,2)	Korea	November 30		5,686	14.6		5,947	14.6
I2S Korea Co., Ltd.	Korea	December 31		1,371	25.0		1,369	25.0
Trus Y 7 REIT Co., Ltd. (*1,2)	Korea	October 31		3,620	8.3		3,738	8.3
KoFC Kyobo Hanhwa 2010-6	Korea	December 31		12,571	25.0		13,737	25.0
Mastern 2 REIT (*2)	Korea	December 31		13,177	12.5		13,414	12.5
Kyobo With Special Purpose Acquisition Company (*2)	Korea	December 31		-	-		26	0.3
Kyobo 3 Special Purpose Acquisition Company (*2)	Korea	December 31		-	-		1	0.1
Kyobo 4 Special Purpose Acquisition Company (*2)	Korea	December 31		8	0.1		-	-
Kyobo 5 Special Purpose Acquisition Company (*2)	Korea	December 31		29	0.3		-	-
Hwaseong-Jeongnam General Industry Complexes Co., LTD.(*2)	Korea	December 31		10	19.0		-	-
				39,470			43,928	

12. Investments in associates (cont'd)

12-1) Investments in associates and jointly controlled entities as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions) (cont'd):

	Country	Reporting date	December 31, 2015 Book Value	December 31, 2015 Owner ship (%)	December 31, 2014 Book value	December 31, 2014 Owner ship (%)
Jointly controlled entities						
Kyobo AXA Investment Management Co., Ltd.	Korea	December 31	₩ 28,879	50.0	₩ 28,327	50.0
Saeng Bo Real Estate Trust Co., Ltd.	Korea	December 31	38,092	50.0	33,317	50.0
			66,971		61,644	
			₩ 106,441		₩ 105,572	

(*1) The latest annual financial statements of the associates were utilized since the difference between the end of the reporting period of associates and that of the Group was less than three months. There were no significant transactions or events that occured between associates' reporting date and the date of the Group's financial statements.
(*2) The entities are classified as associates even though the Company holds less than 20% of shares, since members of the Company's board of directors are also members of the entities' board and thus have significant influence over the entities.

12. Investments in associates (cont'd)

12-2) Changes in investments in associates and jointly controlled entities for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015					
	Beginning balance	Acquisition	Disposal	Valuation	Dividend	Ending balance
Associates						
A&D Credit Information Co., Ltd.	₩ 2,945	₩ -	₩ -	₩ 102	₩ (49)	₩ 2,998
Kocref No.8	2,751	-	(2,725)	(26)	-	-
Kocref No.14	5,947	-	-	595	(856)	5,686
Trus Y 7 REIT Co., Ltd.	3,738	-	-	104	(222)	3,620
KoFC Kyobo Hanhwa 2010-6	13,737	-	(4,333)	3,167	-	12,571
I2S Korea Co., Ltd.	1,369	-	-	17	(15)	1,371
Mastern 2 REIT	13,414	-	-	802	(1,039)	13,177
Kyobo With Special Purpose Acquisition Company	26	-	(14)	(12)	-	-
Kyobo 3 Special Purpose Acquisition Company	1	-	(4)	3	-	-
Kyobo 4 Special Purpose Acquisition Company	-	4	-	4	-	8
Kyobo 5 Special Purpose Acquisition Company	-	15	-	14	-	29
Hwaseong-Jeongnam General Industry Complexes Co., Ltd	-	10	-	-	-	10
	43,928	29	(7,076)	4,770	(2,181)	39,470
Jointly controlled entities						
Kyobo AXA Investment Management Co., Ltd.	28,327	-	-	3,102	(2,550)	28,879
Saeng Bo Real Estate Trust Co., Ltd.	33,317	-	-	5,275	(500)	38,092
	61,644	-	-	8,377	(3,050)	66,971
	₩ 105,572	₩ 29	₩ (7,076)	₩ 13,147	₩ (5,231)	₩ 106,441

12. Investments in associates (cont'd)

12-2) Changes in investments in associates and jointly controlled entities for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2014				
	Beginning balance	Acquisition	Valuation	Dividend	Ending balance
Associates					
A&D Credit Information Co., Ltd.	₩ 2,973	₩ -	₩ 70	₩ (98)	₩ 2,945
Kocref No.8	2,703	-	48	-	2,751
Kocref No.14	6,182	-	673	(908)	5,947
I2S Korea Co., Ltd.	1,288	-	81	-	1,369
Trus Y 7 REIT Co., Ltd.	3,845	-	154	(261)	3,738
KoFC Kyobo Hanhwa 2010-6	13,523	190	24	-	13,737
Mastern 2 REIT	13,498	-	1,082	(1,166)	13,414
Kyobo With Special Purpose Acquisition Company	-	14	12	-	26
Kyobo 3 Special Purpose Acquisition Company	-	4	(3)	-	1
	44,012	208	2,144	(2,433)	43,928
Jointly controlled entities					
Kyobo AXA Investment Management Co., Ltd.	27,504	-	2,623	(1,800)	28,327
Saeng Bo Real Estate Trust Co., Ltd.	32,601	-	916	(200)	33,317
	60,105	-	3,540	(2,000)	61,644
	₩ 104,117	₩ 208	₩ 5,684	₩ (4,433)	₩ 105,572

12. Investments in associates (cont'd)

12-3) Condensed financial information for investments in associates and jointly controlled entities as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	December 31, 2015				December 31, 2014			
	Assets	Liabilities	Operating income	Net income (expenses)	Assets	Liabilities	Operating income	Net income (expenses)
Associates								
A&D Credit Information Co., Ltd.	₩ 22,073	₩ 6,697	₩ 38,274	₩ 522	₩ 19,971	₩ 4,866	₩ 36,774	₩ 357
Kocref No.8	-	-	-	-	46,766	5,504	-	2,357
Kocref No.14	108,469	69,582	14,353	4,063	110,213	69,536	14,689	4,613
Trus Y 7 REIT Co., Ltd.	103,264	59,429	7,425	1,249	103,950	58,681	8,082	1,878
KoFC Kyobo Hanhwa 2010-6	50,394	130	12,902	12,488	55,389	276	978	323
I2S Korea Co., Ltd.	7,798	2,313	64	69	6,755	1,298	381	323
Mastern 2 REIT	218,764	112,967	16,895	6,576	220,206	112,494	17,493	6,299
Kyobo With Special Purpose Acquisition Company	-	-	-	-	9,810	1,692	-	(31)
Kyobo 3 Special Purpose Acquisition Company	-	-	-	-	2,000	1,712	-	(2)
Kyobo 4 Special Purpose Acquisition Company	6,825	809	41	(55)	-	-	-	-
Kyobo 5 Special Purpose Acquisition Company	11,863	1,359	67	(8)	-	-	-	-
Hwaseong-Jeongnam General Industry Complexes Co., Ltd	50	-	-	-	-	-	-	-
Jointly controlled entities								
Kyobo AXA Investment Management Co., Ltd.	62,939	5,180	25,391	6,189	61,403	4,748	22,896	5,243
Saeng Bo Real Estate Trust Co., Ltd.	94,454	18,302	30,914	12,166	75,672	9,070	17,005	2,059

12-4) The market value for associates and jointly controlled entities which are publicity traded as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
	Fair value	Book value	Fair value	Book value
Kocref No.8 (*)	₩ -	₩ -	₩ -	₩ 2,751
Trus Y 7 REIT CO., Ltd.	3,196	3,620	3,620	3,738

(*) The company was delisted due to the end of its business and has currently completed liquidation process.

12. Investments in associates (cont'd)

12-5) Allocation of accumulated gain on valuation of associates to policyholder's equity adjustments and deferred income tax liabilities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Gain on valuation of associates	₩ (603)	₩ 103
Amount allocated to policyholder's equity Adjustment	(689)	(58)
Amount allocated to deferred income tax Liabilities	21	39
Amount allocated to accumulated other Comprehensive income	65	122

13. Classification by categories of financial instruments

13-1) The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	December 31, 2015							
	Fair value through profit of loss assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Hedging purpose derivatives	Fair value through profit of loss liabilities	Financial liabilities recognized by amortized cost	Total
Assets :								
Cash and due from banks	₩ -	₩ -	₩ -	₩ 1,728,663	₩ -	₩ -	₩ -	₩ 1,728,663
Financial assets designated at fair value through profit or loss	346,939	-	-	-	-	-	-	346,939
Trading assets	4,086,831	-	-	-	-	-	-	4,086,831
Derivatives	180,850	-	-	-	10,037	-	-	190,887
Available-for-sale financial assets	-	22,682,619	-	-	-	-	-	22,682,619
Held-to-maturity financial assets	-	-	22,860,268	-	-	-	-	22,860,268
Loans	-	-	-	16,820,111	-	-	-	16,820,111
Other receivables	-	-	-	1,646,405	-	-	-	1,646,405
	₩4,614,620	₩22,682,619	₩ 22,860,268	₩20,195,179	₩ 10,037	₩ -	₩ -	₩70,362,723
Liabilities :								
Financial liabilities designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,612,755	₩ -	₩ 1,612,755
Trading liabilities	-	-	-	-	-	210,660	-	210,660
Derivatives	-	-	-	-	475,300	303,989	-	779,289
Borrowings	-	-	-	-	-	-	2,094,276	2,094,276
Other financial liabilities	-	-	-	-	-	-	1,473,273	1,473,273
	₩ -	₩ -	₩ -	₩ -	₩475,300	₩ 2,127,404	₩ 3,567,549	₩ 6,170,253

13. Classification by categories of financial instruments (cont'd)

13-1) The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions) (cont'd):

	December 31, 2014							
	Fair value through profit of loss assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Hedging purpose derivatives	Fair value through profit of loss liabilities	Financial liabilities recognized by amortized cost	Total
Assets :								
Cash and due from banks	₩ -	₩ -	₩ -	₩ 1,443,893	₩ -	₩ -	₩ -	₩ 1,443,893
Financial assets designated at fair value through profit or loss	312,313	-	-	-	-	-	-	312,313
Trading assets	4,502,003	-	-	-	-	-	-	4,502,003
Derivatives	155,785	-	-	-	23,306	-	-	179,091
Available-for-sale financial assets	-	22,147,556	-	-	-	-	-	22,147,556
Held-to-maturity financial assets	-	-	19,283,195	-	-	-	-	19,283,195
Loans	-	-	-	16,372,063	-	-	-	16,372,063
Other receivables	-	-	-	1,317,906	-	-	-	1,317,906
	₩4,970,101	₩22,147,556	₩19,283,195	₩19,133,862	₩ 23,306	₩ -	₩ -	₩65,558,020
Liabilities :								
Financial liabilities designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ -	₩ -	₩1,680,731	₩ -	₩ 1,680,731
Trading liabilities	-	-	-	-	-	289,001	-	289,001
Derivatives	-	-	-	-	260,070	294,257	-	554,327
Borrowings	-	-	-	-	-	-	2,297,038	2,297,038
Other financial liabilities	-	-	-	-	-	-	1,247,608	1,247,608
	₩ -	₩ -	₩ -	₩ -	₩ 260,070	₩2,263,989	₩ 3,544,646	₩ 6,068,705

13. Classification by categories of financial instruments (cont'd)

13-2) Gains (losses) on categories of financial instruments for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015						
	Interest income, net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income (expenses), net (*)	Total net income	Other compre-hensive income, net
Financial assets designated at fair value through profit of loss	₩ -	₩ (13)	₩ (4,339)	₩ -	₩ (4,074)	₩ (8,426)	₩ -
Trading assets	85,691	26,436	(12,377)	-	30,018	129,768	-
Available-for-sale financial assets	575,599	190,372	-	(32,114)	424,480	1,158,337	1,824
Held-to-maturity financial assets	882,266	604	-	-	271,336	1,154,206	(4,896)
Hedging purpose derivativs	-	(36,738)	(362,662)	-	-	(399,400)	9,355
Trading purpose derivatives	-	(52,278)	(31,376)	-	-	(83,654)	-
Loans and receivables	1,018,444	3,215	-	(20,358)	30,195	1,03,496	-
Financial liabilities at fair value through profit of loss	-	(39,196)	34,981	-	-	(4,215)	-
Trading liabilities	-	(5,425)	(4,536)	-	-	(9,961)	-
Financial liabilities measured at amortized cost	(57,681)	-	-	-	-	(57,681)	-
	₩ 2,504,319	₩ 86,977	₩ (380,309)	₩ (52,472)	₩ 751,955	₩ 2,910,470	₩ 6,283

(*) Including foreign currency transaction gain and loss and dividend income.

	2014						
	Interest income, net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income (expenses), net (*)	Total net income	Other compre-hensive income, net
Financial assets at fair value through profit or loss	₩ 91,548	₩ 28,662	₩ (10,666)	₩ -	₩ (1,577)	₩ 107,967	₩ -
Available-for-sale financial assets	610,278	157,698	-	(3,888)	256,839	1,020,927	169,829
Held-to-maturity financial assets	762,479	95	-	-	140,926	903,500	(5,728)
Loans and receivables	1,072,206	(4,844)	-	(21,910)	1,906	1,047,358	-
Financial liabilities at fair value through profit or loss	-	(32,016)	9,624	-	-	(22,392)	-
Financial liabilities measured at amortized cost	(61,288)	-	-	-	-	(61,288)	-
Hedging purpose derivativs	-	10,723	(192,760)	-	-	(182,037)	33,121
Trading purpose derivatives	-	10,174	(21,385)	-	-	(11,211)	-
	₩ 2,475,223	₩ 170,492	₩ (215,187)	₩(25,798)	₩ 398,094	₩ 2,802,824	₩197,222

(*) Including foreign currency transaction gain and loss and dividend income.

14. Financial assets and liabilities

14-1) Fair value of financial instruments

Book value and fair value of financial assets and liabilities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Cash and due from banks	₩ 1,728,663	₩ 1,728,663	₩ 1,443,893	₩ 1,443,893
Financial assets designated at fair value through profit or loss	346,939	346,939	312,313	312,313
Trading assets	4,086,831	4,086,831	4,502,003	4,502,003
Derivative assets	190,887	190,887	179,091	179,091
Available-for-sale financial assets	22,682,619	22,682,619	22,147,556	22,147,556
Held-to-maturity financial assets	22,860,268	25,776,050	19,283,195	21,415,078
Loans	16,820,111	16,962,221	16,372,063	16,573,623
Other receivables	1,646,405	1,647,153	1,317,906	1,312,671
	₩ 70,362,723	₩ 73,421,363	₩ 65,558,020	₩ 67,886,228
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	1,612,755	1,612,755	1,680,731	1,680,731
Trading liabilities	210,660	210,660	289,001	289,001
Derivative liabilities	779,289	779,289	554,326	554,326
Borrowings	2,094,276	2,094,276	2,297,038	2,297,038
Other financial liabilities	1,473,273	1,475,581	1,247,608	1,236,376
	₩ 6,170,253	₩ 6,172,561	₩ 6,068,704	₩ 6,057,472

14-2) Financial instruments measured at the fair value

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

14. Financial assets and liabilities (cont'd)

14-2) Financial instruments measured at the fair value (cont'd)

Financial instruments measured at the fair value as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets designated at fair value through profit or loss	₩ -	₩ 215,203	₩ 131,736	₩ 346,939
Trading assets	542,433	3,544,398	-	4,086,831
Derivative assets	17,888	120,040	52,959	190,887
Available-for-sale financial assets	905,309	17,635,216	4,142,094	22,682,619
	₩ 1,465,630	₩ 21,514,857	₩ 4,326,789	₩ 27,302,276
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	-	-	1,612,755	1,612,755
Trading liabilities	210,660	-	-	210,660
Derivative liabilities	30,862	660,142	88,285	779,289
	₩ 241,522	₩ 660,142	₩ 1,701,040	₩ 2,602,704

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets designated at fair value through profit or loss	₩ -	₩ 108,462	₩ 203,851	₩ 312,313
Trading assets	1,638,093	2,863,910	-	4,502,003
Derivative assets	13,930	134,176	30,985	179,091
Available-for-sale financial assets	5,228,091	16,182,730	736,735	22,147,556
	₩ 6,880,114	₩ 19,289,278	₩ 971,571	₩ 27,140,963
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss	-	-	1,680,731	1,680,731
Trading liabilities	289,001	-	-	289,001
Derivative liabilities	14,079	423,868	116,380	554,326
	₩ 303,080	₩ 423,868	₩ 1,797,111	₩ 2,524,058

14. Financial assets and liabilities (cont'd)

14-3) Changes in level 3 fair value hierarchy for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015				
	Financial assets designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	Derivatives, net	Available-for-sale financial assets	Total
Beginning balance	₩ 203,851	₩ (1,680,731)	₩ (85,395)	₩ 736,735	₩ (825,540)
Purchases	61,274	(1,395,733)	(23,940)	25,624	(1,332,775)
Settlements	(130,320)	1,432,189	60,111	(106,475)	1,255,505
Total income:	(3,069)	31,520	13,898	21,632	63,981
Profit or loss	(3,069)	31,520	13,898	145	42,494
Other comprehensive income	-	-	-	21,487	21,487
Transfers from/into level 3	-	-	-	3,464,578	3,464,578
	₩ 131,736	₩ (1,612,755)	₩ (35,326)	₩ 4,142,094	₩ 2,625,749

	2014				
	Financial assets designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	Derivatives, net	Available-for-sale financial assets	Total
Beginning balance	₩ 260,692	₩ (1,375,636)	₩ 16,716	₩ 747,861	₩ (350,367)
Purchases	130,876	1,289,570	54,650	25,205	1,500,300
Settlements	(180,348)	(1,598,423)	(113,073)	(37,657)	(1,929,501)
Total income:	(7,369)	3,758	3,690	(6,720)	(6,640)
Profit or loss	(7,369)	3,758	3,690	126	206
Other comprehensive income	-	-	-	(6,846)	(6,846)
Transfers from/into level 3	-	-	(47,378)	8,046	(39,332)
	₩ 203,851	₩ (1,680,731)	₩ (85,395)	₩ 736,735	₩ (825,540)

14-4) Total gains or losses for the year recognized in profits or losses relating to financial instruments in level 3 held at the end of the reporting year are presented in the statement of comprehensive income as follows (Korean won in millions):

	2015	
	Total gains	Gains relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in level 3	₩ 25,456	₩ 42,494

	2014	
	Total gains	Gains relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in level 3	₩ (18,836)	₩ 206

14. Financial assets and liabilities (cont'd)

14-5) Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of December 31, 2015 are as follows:

Type of financial instrument	Valuation technique	Input Variables
Financial assets:		
Trading assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price, etc
Derivative assets	Discounted cash flow, Option model	Interest rate, foreign exchange rate, stock price, etc
Available-for-sale financial assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price, etc
Financial liabilities:		
Derivative liabilities	Discounted cash flow, Option model	Interest rate, foreign exchange rate, stock price, etc

14-6) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2015 is as follows:

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial assets:				
Financial assets designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset	0% ~ 99%	Depend on the structure of financial instrument
		Correlations	-0.99~0.99	Depend on the structure of financial instrument
Derivative assets	Price formulas, Simulation, 1-factor Gaussian Copular model	The volatility of the underlying asset	0% ~ 99%	For CDS, a significant increase in correlation coefficient would result in decrease in fair value. For ELW, increase in variability would result in increase in fair value. Stock derivative option depends on the structure.
		Correlations	-0.99 ~ 0.99	
Available-for-sale financial assets	Discounted cash flow, dividend discount model, net asset method, residual income model	Growth rate	0.00% ~ 2.00%	A significant increase in growth rate would result in a higher fair value
		Discount rate	0.99% ~ 20.65%	A significant increase in discount rate would result in a lower fair value
		liquidation value rate	0.00%	A significant increase in liquidation value rate would result in a higher fair value

14. Financial assets and liabilities (cont'd)

14-6) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of December 31, 2015 is as follows (cont'd):

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial liabilities: Financial liabilities designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset	0% ~ 99%	Depend on the structure of financial instrument
		Correlations	-0.99 ~ 0.99	Depend on the structure of financial instrument
Derivative liabilities	Price formulas, Simulation, 1-factor Gaussian Copular model Hull&White model	The volatility of the underlying asset	0% ~ 99%	For CDS, a significant increase in correlation coefficient would result in decrease in fair value. For ELW, increase in variability would result in increase in fair value. Stock derivative option depends on the structure.
		Correlations	-0.99 ~ 0.99	
		Discount rate	1.92%	A significant increase in interest rate would result in a lower fair value

14-7) For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income (Korean won in millions):

	Net income		Other comprehensive income	
	Favorable change	Unfavorable change	Favorable change	Unfavorable change
Financial assets:				
Financial assets designated at fair value through profit or loss (*1)	₩ 406	₩ (249)	₩ -	₩ -
Derivative assets (*1)	5,621	(8,715)	-	-
Available-for-sale financial assets (*2)	-	-	60,119	(30,468)
	₩ 6,027	₩ (8,964)	₩ 60,119	₩ (30,468)
Financial liabilities:				
Financial liabilities designated at fair value through profit or loss (*1)	₩ 4,193	₩ (5,102)	₩ -	₩ -
Derivative liabilities (*1),(*3)	6,566	(8,200)	-	-
	₩ 10,759	₩ (13,302)	₩ -	₩ -

(*1) Change in fair value is calculated by increasing or decreasing the correlation of the fluctuation range of stock price (-10%~10%) and its volatility (-10%~10%).

(*2) Change in fair value is calculated by increasing or decreasing the correlation of permanent growth rate (0%~1% or -1% ~1%)), fluctuation rate of liquidation value (-1% ~1%) and discount rate (-1%~1%).

(*3) Change in fair value is calculated by increasing or decreasing the discount rate (-1% ~1%).

14. Financial assets and liabilities (cont'd)

14-8) Total book value of items is measured by historical cost since there is no active market and fair value cannot be reliably measured as of December 31, 2015 and 2014 (Korean won in millions).

	December 31, 2015	December 31, 2014
Available-for–sale financial assets	₩ 33,647	₩ 28,323

14-9) The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as of December 31, 2015 is as follows (Korean won in millions):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from banks	₩ 1,582	₩ 1,727,081	₩ -	₩ 1,728,663
Held-to-maturity financial assets	39	25,776,002	9	25,776,050
Loans	-	-	16,962,221	16,962,221
Other receivables	-	121	1,647,032	1,647,153
	₩ 1,621	₩ 27,503,204	₩ 18,609,262	₩ 46,114,087
Financial liabilities:				
Borrowings	-	25,640	2,068,636	2,094,276
Other financial liabilities	-	3	1,475,578	1,475,581
	₩ -	₩ 25,643	₩ 3,544,214	₩ 3,569,857

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and due from banks	₩ 1,707	₩ 1,442,186	₩ -	₩ 1,443,893
Held-to-maturity financial assets	-	21,415,078	-	21,415,078
Loans	-	-	16,573,623	16,573,623
Other receivables	-	-	1,312,671	1,312,671
	₩ 1,707	₩ 22,857,264	₩ 17,886,294	₩ 40,745,265
Financial liabilities:				
Borrowings	140,000	-	2,157,038	2,297,038
Other financial liabilities	-	-	1,236,376	1,236,376
	₩ 140,000	₩ -	₩ 3,393,414	₩ 3,533,414

14. Financial assets and liabilities (cont'd)

14-10) Offsetting financial assets and financial liabilities

Details of financial assets and financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Financial instruments	Cash collateral received	Net amounts
Financial assets:						
Derivative assets	₩ 190,887	₩ -	₩ 190,887	₩ 56,794	₩ -	₩ 134,093
Exchange receivable	220,909	190,400	30,509	-	-	30,509
	₩ 411,796	₩ 190,400	₩ 221,396	₩ 56,794	₩ -	₩ 164,602
Financial liabilities:						
Derivative liabilities	₩ 779,289	₩ -	₩ 779,289	₩ 363,442	₩ -	₩ 415,847
Bonds sold under repurchase agreements	1,812,684	-	1,812,684	1,812,684	-	-
Exchange payables	207,323	190,400	16,923	-	-	16,923
	₩ 2,799,297	₩ 190,400	₩ 2,608,897	₩ 2,176,126	₩ -	₩ 432,770

	December 31, 2014					
				Amount not offsetting in the statements of financial position		
	Financial assets and liabilities recognized	Offsetting financial assets and liabilities recognized	Financial assets and liabilities recognized after offset	Financial instruments	Cash collateral received	Net amounts
Financial assets:						
Derivative assets	₩ 182,315	₩ 3,224	₩ 179,091	₩ 79,198	₩ -	₩ 99,893
Securities lent	2,006,072	-	2,006,072	2,006,072	-	-
Exchange receivable	179,026	140,376	38,650	-	-	38,650
	₩ 2,367,413	₩ 143,600	₩ 2,223,813	₩ 2,085,270	₩ -	₩ 138,543
Financial liabilities:						
Derivative liabilities	₩ 557,551	₩ 3,224	₩ 554,327	₩ 370,354	₩ -	₩ 183,973
Bonds sold under repurchase agreements	1,829,026	-	1,829,026	1,829,026	-	-
Exchange payables	146,907	140,376	6,531	-	-	6,531
	₩ 2,533,484	₩ 143,600	₩ 2,389,884	₩ 2,199,380	₩ -	₩ 190,504

15. Investment property

15-1) Investment property as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated Impairment losses	Book value
Land	₩ 820,493	₩ -	₩ (8,095)	₩ 812,398
Buildings	475,735	(114,746)	(11,399)	349,590
Structures	8,825	(1,993)	(214)	6,618
	₩ 1,305,053	₩ (116,739)	₩ (19,708)	₩ 1,168,606

	December 31, 2014			
	Acquisition cost	Accumulated depreciation	Accumulated Impairment losses	Book value
Land	₩ 842,817	₩ -	₩ (4,316)	₩ 838,501
Buildings	481,397	(110,298)	(10,532)	360,567
Structures	8,890	(1,879)	(197)	6,814
Construction in progress	1,678	-	-	1,678
	₩ 1,334,782	₩ (112,177)	₩ (15,045)	₩ 1,207,560

15-2) Changes in investment property for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015						
	Beginning balance	Acquisition	Disposal	Impairment losses	Depreciation	Other(*)	Ending balance
Land	₩ 838,501	₩ -	₩ (408)	₩ (3,858)	₩ -	₩ (21,837)	₩ 812,398
Buildings	360,567	84	(1,647)	(1,420)	(11,287)	3,293	349,590
Structures	6,814	-	(3)	-	(207)	14	6,618
Construction in progress	1,678	-	-	-	-	(1,678)	-
	₩ 1,207,560	₩ 84	₩ (2,058)	₩ (5,278)	₩ (11,494)	₩ (20,208)	₩ 1,168,606

(*) Other increase and decrease represent transfers to property and equipment or non-current assets held-for-sale.

15. Investment property (cont'd)

15-2) Changes in investment property for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2014						
	Beginning balance	Acquisition	Disposal	Impairment losses	Depreciation	Other(*)	Ending Balance
Land	₩ 806,780	₩ 5,329	₩ (940)	₩ (1,401)	₩ -	₩ 28,733	₩ 838,501
Buildings	347,984	11,454	(2,063)	(2,773)	(11,004)	16,969	360,567
Structures	6,818	-	-	-	(211)	207	6,814
Construction in progress	5,841	-	-	-	-	(4,163)	1,678
	₩ 1,167,423	₩ 16,783	₩ (3,003)	₩ (4,174)	₩ (11,215)	₩ 41,746	₩ 1,207,560

(*) Other increase and decrease represent transfers to property and equipment or non-current assets held-for-sale.

15-3) Gain (loss) on investment property for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Rentals	₩ 97,377	₩ 99,724
Direct operating expenses for investment property:		
Generated rental income	29,239	29,465
Not generated rental income	2,285	2,607

15-4) The fair value of investment properties as of December 31, 2015 and 2014 are ₩1,539,380 million and ₩1,267,483 million, respectively. The fair value is estimated by qualified and independent valuation specialist. The fair value of investment properties is classified as level 3.

Valuation techniques and inputs used in measuring investment property as of December 31, 2015 are as follows:

Valuation technique	Input variables	Fair value measurement sensitivity to unobservable inputs
Cost approach sales comparison Income approach	Discount rate Vacancy rate Operating expenses rate	A significant increase in discount rate, vacancy rate, operating expenses rate would result in a lower fair value.

15. Investment property (cont'd)

15-5) Investment property pledged as collaterals as of December 31, 2015 and 2014 are as follows (Korean won in millions):

		December 31, 2015	December 31,2014	Purpose
Doosan Heavy Industries & Construction	Book value	₩ 104,632	₩ 100,556	Establishment of the right to collateral security
	Maximum credit amount	117,229	126,894	

15-6) Impairment losses on investment property for the year ended December 31, 2015 amounts to ₩5,278 million.

16. Property and equipment

16-1) Property and equipment as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 804,348	₩ -	₩ (6,996)	₩ 797,352
Buildings	681,699	(172,935)	(41,608)	467,156
Structures	20,086	(5,756)	(310)	14,020
Vehicles	2,839	(2,184)	-	655
Equipments	434,864	(388,008)	(1)	46,855
Construction in progress	60	-	-	60
Others	41,017	(17,059)	(363)	23,595
	₩ 1,984,913	₩ (585,942)	₩ (49,278)	₩ 1,349,693

	December 31, 2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩ 791,167	₩ -	₩ (4,639)	₩ 786,528
Buildings	639,761	(159,118)	(26,236)	454,407
Structures	19,972	(5,322)	(327)	14,323
Vehicles	2,774	(1,890)	-	884
Equipments	432,850	(389,948)	-	42,902
Construction in progress	4,784	-	-	4,784
Others	42,556	(16,041)	(360)	26,155
	₩ 1,933,864	₩ (572,319)	₩ (31,562)	₩ 1,329,983

16. Property and equipment (cont'd)

16-2) Changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015							
	Beginning balance	Acquisitions	Disposals	Impairment	Depreciation	Transfer from CIP	Other (*)	Ending balance
Land	₩ 786,528	₩ 113	₩ (97)	₩ (2,748)	₩ -	₩ -	₩ 13,556	₩ 797,352
Buildings	454,407	491	(3,345)	(15,750)	(11,420)	51,012	(8,239)	467,156
Structures	14,323	-	(24)	-	(359)	100	(20)	14,020
Vehicles	884	246	-	-	(475)	-	-	655
Equipment	42,902	24,575	(1,064)	-	(20,906)	1,349	(1)	46,855
Construction in progress	4,784	46,227	-	-	-	(52,835)	1,884	60
Other	26,155	84	(374)	(3)	(2,641)	374	-	23,595
	₩ 1,329,983	₩ 71,636	₩ (4,904)	₩ (18,501)	₩ (35,801)	₩ -	₩ 7,180	₩ 1,349,693

(*) Other increase and decrease represent transfers to investment property or non-current assets held-for -sale.

	2014							
	Beginning balance	Acquisitions	Disposals	Impairment	Depreciation	Transfer from CIP	Other (*)	Ending balance
Land	₩ 830,192	₩ 134	₩ (6,593)	₩ -	₩ -	₩ -	₩ (37,205)	₩ 786,528
Buildings	450,849	1,628	(5,933)	-	(10,966)	42,003	(23,174)	454,407
Structures	14,798	-	(11)	-	(354)	243	(353)	14,323
Vehicles	660	667	-	-	(443)	-	-	884
Equipment	48,013	20,682	(1,756)	-	(25,053)	1,016	-	42,902
Construction in progress	3,428	43,720	-	-	-	(46,557)	4,193	4,784
Other	24,974	778	(327)	(67)	(2,498)	3,295	-	26,155
	₩ 1,372,914	₩ 67,609	₩ (14,620)	₩ (67)	₩ (39,314)	₩ -	₩ (56,539)	₩ 1,329,983

(*) Other increase and decrease represent transfers to investment property or non-current assets held-for -sale.

16-3) Impairment loss on property and equipment for the period ended December 31, 2015 amounts to ₩18,501 million.

16-4) The changes in asset revaluation of land accounted for in other comprehensive income (expense) and policyholder's equity adjustment are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Revaluation reserves	₩ 886,922	₩ 847,194
Amount allocated into policyholders' equity adjustment	162,136	175,441
Amount allocated into deferred tax liabilities	175,399	162,564
Amount allocated into other comprehensive income	549,387	509,189

16. Property and equipment (cont'd)

16-5) Reserve for revaluation as of December 31, 2015 is as follows (Korean won in millions):

Revaluation date		Amount
January 1, 1981	₩	165
April 1, 1989		66,223
April 1, 1999		23,900
		90,288
Deferred tax effect		(19,863)
	₩	70,425

As of April 1, 1999, a certain portion of the Group's property and equipment was revalued in accordance with the Korean Asset Revaluation Law. As a result, the revaluation increment amounting to ₩478,550 million was classified as asset revaluation reserve. Out of this amount, ₩47,800 million, excluding participating policyholder's equity amounting to ₩430,750 million, was calculated as asset revaluation reserve. The asset revaluation reserve amounting to ₩23,900 million was transferred to capital stock during the year ended March 31, 2002. Out of ₩430,750 million, the amount of ₩64,000 million was transferred to the reserve for special participating policyholders' dividends and was paid during the year ended March 31, 2002, while the amount of ₩63,750 million was transferred to reserve for social contributions in policyholders' equity. The amount of ₩126,438 million, out of the remainder amounting to ₩303,000 million, was used for dividends to policyholders for the year ended March 31, 2001, while the amount of ₩176,562 million was transferred to reserve for participating policyholder's dividends for stabilization. The amount of ₩145,833 million, a part of reserve for participating policyholder's dividends for stabilization, was used for dividends to policyholders. The reserve for participating policyholder's dividends for stabilization amounts to ₩30,729 million.

The amount of ₩65,923 million from Group's reserve will be used for future policyholder's dividend or deficit recovery. Therefore, it is excluded from Group's equity when conducting security analysis.

17. Intangible assets

17-1) Intangible assets as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015							
	Acquisition cost		Accumulated depreciation		Accumulated impairment losses		Book value	
Goodwill	₩	9,357	₩	-	₩	-	₩	9,357
Software		117,499		(105,126)		-		12,373
Development cost		132,896		(107,971)		-		24,925
Memberships		15,348		-		(3,208)		12,140
Others		14,982		(11,422)		-		3,560
	₩	290,082	₩	(224,519)	₩	(3,208)	₩	62,355

17. Intangible assets (cont'd)

17-1) Intangible assets as of December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	December 31, 2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Goodwill	₩ 9,357	₩ -	₩ -	₩ 9,357
Software	113,148	(100,624)	-	12,524
Development cost	128,306	(93,035)	-	35,271
Memberships	16,829	-	(3,850)	12,979
Others	5,056	(1,471)	-	3,585
	₩ 272,696	₩ (195,130)	₩ (3,850)	₩ 73,716

17-2) Changes in intangible assets for the years ended December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	2015						
	Beginning balance	Acquisitions	Disposals	Impairment	Depreciation	Other	Ending balance
Goodwill	₩ 9,357	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 9,357
Software	12,524	4,150	-	-	(4,301)	-	12,373
Development cost	35,271	3,473	-	(5)	(14,576)	762	24,925
Memberships	12,979	990	(1,591)	(238)	-	-	12,140
Others	3,585	1,084	(78)	(14)	(268)	(749)	3,560
	₩ 73,716	₩ 9,697	₩ (1,669)	₩ (257)	₩ (19,145)	₩ 13	₩ 62,355

	2014						
	Beginning balance	Acquisitions	Disposals	Impairment	Depreciation	Other	Ending balance
Goodwill	₩ 9,357	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 9,357
Software	12,499	4,426	(84)	-	(4,361)	44	12,524
Development cost	45,384	4,562	-	(400)	(15,128)	853	35,271
Memberships	12,962	1,845	(1,767)	(61)	-	-	12,979
Others	4,724	1,215	(352)	-	(1,104)	(898)	3,585
	₩ 84,926	₩ 12,048	₩ (2,096)	₩ (461)	₩ (20,593)	₩ (108)	₩ 73,716

18. Deferred acquisition costs

Changes in deferred acquisition costs for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015					
		Acquisition cost			Amortization of deferred acquisition costs	
	Beginning balance	Generated	Amortization	Deferred acquisition costs		Ending balance
Individual insurance	₩ 2,032,736	₩ 915,616	₩ (160,010)	₩ 755,606	₩ (855,282)	₩ 1,933,060
Group insurance	24,018	17,910	(4,188)	13,722	(11,586)	26,154
	₩ 2,056,754	₩ 993,526	₩ (164,198)	₩ 769,328	₩ (866,868)	₩ 1,959,214

	2014					
		Acquisition cost			Amortization of deferred acquisition costs	
	Beginning balance	Generated	Amortization	Deferred acquisition costs		Ending balance
Individual insurance	₩ 2,109,773	₩ 945,396	₩ (122,476)	₩ 822,920	₩ (899,957)	₩ 2,032,736
Group insurance	20,530	16,607	(3,139)	13,468	(9,980)	24,018
	₩ 2,130,303	₩ 962,003	₩ (125,615)	₩ 836,388	₩ (909,937)	₩ 2,056,754

19. Other assets

Other assets as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Reinsurance assets	₩ 18,414	₩ 18,967
Prepaid expense	11,941	14,242
Advance payments	5,370	14,131
Inventories	72,795	98,371
Others	747	1,348
	₩ 109,267	₩ 147,059

20. Non-current assets held-for-sale

There are no non-current assets held-for-sale as of December 31, 2015.

21. Liability under insurance contracts

21-1) The details of policy reserves as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015				
	Pure endowment	Death	Endowment	Group	Total
Premium reserve	₩ 24,714,172	₩ 27,975,088	₩ 3,958,111	₩ 492,778	₩ 57,140,149
Unearned premium reserve	327	2,523	3	4,478	7,331
Reserve for outstanding claims	717,093	759,757	48,055	45,203	1,570,107
Reserve for participating policyholder's dividend	384,891	9,161	4,356	5,375	403,783
	25,816,483	28,746,529	4,010,525	547,834	59,121,370
Guarantee reserve					486,800
Dividends reserve for participating policyholder's income					11,675
Reserve for losses on dividend insurance contract					31,813
					₩ 59,651,658

	December 31, 2014				
	Pure endowment	Death	Endowment	Group	Total
Premium reserve	₩ 23,607,079	₩ 26,002,829	₩ 3,369,606	₩ 502,316	₩ 53,481,830
Unearned premium reserve	473	2,728	3	4,739	7,943
Reserve for outstanding claims	651,153	762,763	37,833	44,235	1,495,984
Reserve for participating policyholder's dividend	381,991	11,290	4,554	6,581	404,416
	24,640,696	26,779,610	3,411,996	557,871	55,390,173
Guarantee reserve					330,551
Dividends reserve for participating policyholder's income					3,503
Reserve for losses on dividend insurance contract					18,756
					₩ 55,742,983

21-2) Changes in liability under insurance contracts for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		
	Beginning balance	Increase (decrease)	Ending balance
Premium reserve	₩ 53,481,830	₩ 3,658,319	₩ 57,140,149
Unearned premium reserve	7,943	(612)	7,331
Reserve for outstanding claims	1,495,984	74,123	1,570,107
Reserve for participating policyholder's dividend	404,416	(633)	403,783
Guarantee reserve	330,551	156,249	486,800
Reserve for policyholder's profit dividend	3,503	8,172	11,675
Reserve for losses on dividend insurance contract	18,756	13,057	31,813
	₩ 55,742,983	₩ 3,908,675	₩ 59,651,658

21. Liability under insurance contracts (cont'd)

21-2) Changes in liability under insurance contracts for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2014		
	Beginning balance	Increase (decrease)	Ending balance
Premium reserve	₩ 49,242,051	₩ 4,239,779	₩ 53,481,830
Unearned premium reserve	7,957	(14)	7,943
Reserve for outstanding claims	1,417,324	78,660	1,495,984
Reserve for participating policyholder's dividend	399,323	5,093	404,416
Guarantee reserve	232,537	98,014	330,551
Reserve for policyholder's profit dividend	8,623	(5,120)	3,503
Reserve for losses on dividend insurance contract	12,749	6,007	18,756
	₩ 51,320,564	₩ 4,422,419	₩ 55,742,983

22. Policyholder's equity adjustment

Policyholder's equity adjustments as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Reserve for policyholder dividend stabilization	₩ 30,729	₩ 34,471
Fund for public projects	99,466	99,466
Gain on valuation of available-for-sale financial assets	249,321	268,112
Gain on valuation of held-to-maturity financial assets	26,195	14,858
Gain on valuation of investment in associates	(689)	(58)
Gain on revaluation of property and equipment	162,137	175,441
	₩ 567,159	₩ 592,290

23. Liability Adequacy Tests (LAT)

23-1) Application of LAT

Liability Adequacy Tests were performed on the premium reserve, reserve for unearned premium and guarantee reserve as of December 31, 2015 and 2014. The premium reserve considered the amount of net premium reserve less deferred acquisition costs, where appropriate, in accordance with Article 6-3 of Regulation on Supervision of Insurance Business Act.

23-2) Calculation of LAT

By conducting Liability Adequacy Tests, the Group calculates a valuation basis by estimating all future cash flows that may arise from insurance contracts currently held, and if the value exceeds the book value of a reserve appropriated for the Liability Adequacy Tests, the Group adds an additional amount to the reserve.

23. Liability Adequacy Tests (LAT) (cont'd)

23-3) The assumptions and calculation methods

The assumptions and calculation methods used in the calculation of current estimates for future cash flows in the Liability Adequacy Tests as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Discount rate	Average 4.00%	Average 4.43%
Risk premium rate	12%~233%	22%~290%
Surrender ratio	1%~52%	1%~30%

- Discount rate: Discount rate curve presented by Financial Supervisory Service plus risk discount rate calculated by the Company based on historical information.
- Mortality and Morbidity rate: Ratio of premium paid to risk premium based on past statistics of recent 5 years or more by product type, time insurance is sold and lapse of time.
- Lapse and surrender rate: Ratio of earned premium for surrender to earned premium based on past statistics of recent 5 years or more by product type, channel type, payment method type and by lapse of time.

Acquisition costs: Ratio of actual acquisition cost to planned acquisition cost based on past statistics of recent 1 year by product type.

Maintenance fee: Maintenance fee based on past statistics of recent 1 year by insurance and insurance contracts.

23-4) Result of LAT

The result of LAT as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		
	Reserve for test	LAT base	Premium surplus(loss)
Participating :			
Interest rate-fixed	₩ 11,447,930	₩ 16,085,252	₩ (4,637,322)
Interest rate-linked	4,783,484	4,650,639	132.845
Non- participating :			
Interest rate-fixed	16,220,293	19,411,118	(3,190,825)
Interest rate-linked and investment-linked	22,736,558	11,725,059	11,011,499
	₩ 55,188,265	₩ 51,872,068	₩ 3,316,197

23. Liability Adequacy Tests (LAT) (cont'd)

23-4) Result of LAT (cont'd)

The result of LAT as of December 31, 2014 and 2014 are as follows (Korean won in millions) (cont'd):

	December 31, 2014		
	Reserve for test	LAT base	Premium surplus(loss)
Participating :			
Interest rate-fixed	₩ 11,374,882	₩ 14,703,408	₩ (3,328,526)
Interest rate-linked	4,415,168	4,241,746	173,422
Non- participating :			
Interest rate-fixed	15,726,970	18,030,965	(2,303,994)
Interest rate-linked and investment-linked	19,915,999	9,371,256	10,544,743
	₩ 51,433,019	₩ 46,347,375	₩ 5,085,645

The Group did not record additional reserve since the surplus exceeded the deficit based on the result of LAT.

24. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Equity-linked securities sold	₩ 202,571	₩ 331,217
Derivatives-combined securities sold	541,239	588,205
Derivatives-combined debt sold	869,079	761,694
The settled amounts of valuation	(134)	(385)
	₩ 1,612,755	₩ 1,680,731

25. Trading liabilities

Trading liabilities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Securities sold		
Equity	₩ 19,153	₩ 43,575
Debt	191,507	245,426
	₩ 210,660	₩ 289,001

26. Borrowings

Borrowings as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	Creditors	December 31, 2015	December 31, 2014
Call money	Woori Bank. etc.	₩ -	₩ 140,000
Bonds sold under repurchase agreements	Public offerings	1,812,684	1,827,076
Subordinated debt securities issued	Dongbu Insurance Co., Ltd. Etc.	170,147	170,122
Borrowings from Korea Securities Finance co,.	Korea Securities Finance Co,. Ltd.	65,805	55,300
General purpose borrowings	Shinhan Bank, etc.	15,740	27,000
Borrowings for equipment	KB, Kookmin Bank	9,900	37,540
Commercial paper	Shinhan Bank, etc.	20,000	40,000
		₩ 2,094,276	₩ 2,297,038

27. Other financial liabilities

Other financial liabilities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Insurance payables :		
Dormant policies	₩ 37,833	₩ 37,236
Insurance settlement adjustments	997	1,161
Reinsurance payables	39,010	39,093
	77,840	77,490
Accounts payable	495,261	294,613
Accrued expenses	270,858	258,364
Leasehold deposits	141,747	137,609
Present value discount	(11,076)	(13,446)
Dividend payable	4	862
Trust accounts liabilities	7,115	19,281
Customers' deposits	373,102	358,639
Securities deposit received	8,288	5,773
Other	110,134	108,423
	₩ 1,473,273	₩ 1,247,608

28. Provisions

28-1) Changes in provisions for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015			
	Provision for restoration costs	Litigation	Others(*)	Total
Beginning balance	₩ 16,025	₩ 815	₩ 6,299	₩ 23,139
Increase	2,041	-	4,261	6,302
Provision used	(1,476)	-	(1,560)	(3,036)
Provision (reversal)	(126)	(3)	665	536
Ending balance	₩ 16,464	₩ 812	₩ 9,665	₩ 26,941

(*) It is an estimate the Group pays for an accidental death benefit to an insurance beneficiary when an insurance policy holder commits suicide. As of December 31, 2015, the Group cannot predict the timing of actual payment or whether it should pay additionally.

	2014			
	Provision for restoration costs	Litigation	Others	Total
Beginning balance	₩ 16,077	₩ 2,481	₩ 39,682	₩ 58,240
Increase	2,051	-	4,143	6,194
Provision used	(2,582)	-	-	(2,582)
Provision (reversal) (*)	479	(1,666)	(37,526)	(38,713)
Ending balance	₩ 16,025	₩ 815	₩ 6,299	₩ 23,139

(*) The decrease in other provision arises from the reversal of provision regarding revaluation tax for tax authorities.

28-2) Expected timing of economic benefit out flow as of December 31, 2015 is as follow (Korean won in millions):

	December 31, 2015				
	Not later than 1 year	1 ~ 3 years	3 ~ 5 years	Later than 5 years	Total
Provision for restoration costs	₩ 10,005	₩ 5,928	₩ 227	₩ 304	₩ 16,464
Litigation	812	-	-	-	812
Other	6,665	-	-	3,000	9,665
	₩ 17,482	₩ 5,928	₩ 227	₩ 3,304	₩ 26,941

29. Liabilities for defined benefit plan

The Group operates defined benefit plan based on compensation for pension for the employees and the period of providing services. The Group has trusted the plan assets of defined benefit obligations at Kookmin Bank and others.

29-1) Defined benefit plan assets and liabilities as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Present value of defined benefit obligation	₩	279,289	₩	253,648
Fair value of plan assets		(217,268)		(189,130)
Recognized liabilities for defined benefit obligation	₩	62,021	₩	64,518

29-2) Changes in the present value of defined benefit obligation for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		2014	
Beginning balances	₩	253,648	₩	233,118
Current service costs		41,761		42,899
Interest expenses		7,437		8,820
Remeasurements				
Financial assumptions		10,605		19,127
Demographic assumptions		(95)		(257)
Experience adjustments		(7,256)		(723)
Benefits paid by the plan		(23,189)		(46,344)
Past service costs		(3,622)		-
Reduction and liquidation		-		(2,992)
Ending balances	₩	279,289	₩	253,648

29-3) Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		2014	
Beginning balance	₩	189,130	₩	179,945
Interest income		5,379		6,631
Remeasurements		(1,077)		(1,821)
Contributions paid into the plan		46,686		36,318
Benefits paid by the plan		(22,660)		(31,911)
Transfers from (into) affiliate		-		27
Others		(190)		(59)
Ending balance	₩	217,268	₩	189,130

29. Liabilities for defined benefit plan (cont'd)

29-4) Plan assets as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
	Amount	Ratio	Amount	Ratio
Time deposits	₩ 138,104	63.56%	₩ 125,184	66.19%
Equity securities	6,467	2.98%	19,553	10.34%
Debt securities	46,707	21.50%	26,392	13.95%
Property	62	0.03%	149	0.08%
Derivatives	-	0.00%	17,608	9.31%
Investment fund	25,928	11.93%	244	0.13%
	₩ 217,268	100.00%	₩ 189,130	100.00%

29-5) Actuarial assumptions as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Discount rate (*)	2.10% ~ 3.10%	2.30% ~ 3.90%
Future salary increasing rate	2.50% ~ 5.50%	1.00% ~ 5.50%

(*) Considering the timing of the payments of retirement benefits, the Group applied a rate of return of debenture bonds with a rating of AA+.

29-6) Sensitivity analysis
Sensitivity analysis of the present value of defined benefit obligation as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	
	1% Decrease	1% Increase
Discount rate	₩ 33,669	₩ (28,936)
Future salary increasing rate	(29,772)	33,194

30. Other liabilities

Other liabilities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Advance receipts	₩ 8,524	₩ 13,015
Unearned income	24,846	39,390
Withholding	46,336	50,990
Value added tax withhold	5,719	6,219
Unearned insurance premium	157,463	136,894
Others	99	100
	₩ 242,987	₩ 246,608

31. Derivatives

31-1) The notional amounts of derivatives as of December 31, 2015 and 2014 are as follows (Korean won in millions):

1) Exchange traded

	December 31, 2015	December 31, 2014
Interest rates related:		
Interest rate futures	₩ 261,581	₩ 217,550
Equity related:		
Stock index futures	152,618	79,088
Stock index options	12,173	-
	164,791	79,088
Currency related:		
Dollar futures	16,751	-
Euro futures	-	4,777
	16,751	4,777
Commodity related:		
Overseas commodity futures	68,276	131,490
	₩ 511,399	₩ 432,905

2) Over the counter

	December 31, 2015	December 31, 2014
Hedge related:		
Currency related:		
Currency forward	₩ 1,738,137	₩ 1,805,937
Currency swaps	5,913,683	3,047,168
	7,651,820	4,853,105
Non-hedge related:		
Currency related:		
Currency forward	1,394,713	1,665,847
Currency swaps	7,486,995	7,768,404
	8,881,708	9,434,251
Interest rates related:		
Interest rate swaps	3,496,884	1,833,678
Interest rate options	133,440	110,000
	3,630,324	1,943,678
Equity related:		
Stock index options	135,562	690,628
Stock swap	298,335	-
Conversion rights	866	866
Others	656,817	529,426
	1,091,580	1,220,920
Credit related:		
Credit swaps	7,543,980	8,304,787
Commodity related:		
Oversea commodity forward	68,276	-
	21,215,868	20,903,636
	₩ 28,867,688	₩ 25,756,741

31. Derivatives (cont'd)

31-2) Fair values of derivative instruments as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Hedge related:				
Currency related:				
Currency forward	₩ 5,019	₩ 86,655	₩ 7,884	₩ 68,963
Currency swaps	5,018	388,645	14,689	190,644
	10,037	475,300	22,573	259,607
Non-hedge related:				
Currency related:				
Currency forward	11,555	50,666	24,487	51,113
Currency swaps	42,574	109,249	26,316	89,654
	54,129	159,915	50,803	140,767
Interest rates related:				
Interest rate swaps	15,141	20,698	12,435	17,548
Interest rate options	-	23,438	-	-
	15,141	44,136	12,435	17,548
Equity related:				
Stock index options	25,712	51,293	19,955	95,137
Equity linked warrant	45	189	145	135
Conversion rights	6,969	-	3,298	-
Others	24,004	28,403	13,673	30,505
	56,730	79,885	37,071	125,777
Credit related:				
Credit swaps	36,924	2,409	49,199	3,459
Commodity related:				
Commodity swap	17,926	17,644	7,010	7,168
	180,850	303,989	156,518	294,719
	₩ 190,887	₩ 779,289	₩ 179,091	₩ 554,326

31. Derivatives (cont'd)

31-3) Gain or loss on valuation of derivatives for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015			
	Net income		Accumulated other comprehensive Income (*)	
	Gain	Loss	Gain	Loss
Hedge related:				
Currency related:				
Currency forward	₩ 2,965	₩ 69,455	₩ 4,909	₩ 84
Currency swaps	2,982	299,153	38,184	11,182
	5,947	368,608	43,093	11,266
Non-hedge related:				
Currency related:				
Currency forward	11,713	43,429	-	-
Currency swaps	33,595	53,941	-	-
	45,308	97,370	-	-
Interest rates related:				
Interest rate swaps	6,234	6,601	-	-
Interest rate options	276	301	-	-
	6,510	6,902	-	-
Equity related:				
Stock index options	4,278	6,111	-	-
Equity linked warrant	235	91	-	-
Conversion rights	3,447	-	-	-
Others	23,100	11,995	-	-
	31,060	18,197	-	-
Credit related:				
Credit swaps	22,525	21,837	-	-
Commodity related:				
Commodity swap	12,861	4,935	-	-
	118,264	149,241	-	-
Adjustment of credit risk	(934)	(534)	-	-
	₩ 123,277	₩ 517,315	₩ 43,093	₩ 11,266

(*) Accumulated other comprehensive income caused by cash flow hedge accounting before reflecting income tax effect.

31. <u>Derivatives (cont'd)</u>

31-3) Gain or loss on valuation of derivatives for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2014			
	Net income		Accumulated other comprehensive Income (*)	
	Gain	Loss	Gain	Loss
Hedge related:				
Currency related:				
Currency forward	₩ 6,246	₩ 62,152	₩ 6,959	₩ 188
Currency swaps	1,507	138,361	32,686	20,380
	7,753	200,513	39,645	20,568
Non-hedge related:				
Currency related:				
Currency forward	25,051	43,605	-	-
Currency swaps	26,034	32,025	-	-
	51,085	75,630	-	-
Interest rates related:				
Interest rate swaps	13,116	18,606	-	-
Interest rate options	97	243	-	-
	13,213	18,849	-	-
Equity related:				
Stock index options	7,841	3,257	-	-
Equity linked warrant	830	642	-	-
Conversion rights	2,488	878	-	-
Others	16,938	14,664	-	-
	28,097	19,441	-	-
Credit related:				
Credit swaps	29,373	29,040	-	-
	121,768	142,960	-	-
	₩ 129,521	₩ 343,473	₩ 39,645	₩ 20,568

(*) Accumulated other comprehensive income caused by cash flow hedge accounting before reflecting income tax effect.

31-4) Gain or loss on fair value hedges for the years ended December 31, 2015 are as follows (Korean won in millions):

	2015	
	Gain	Loss
Hedged items	₩ 106,110	₩ 2,196
Hedging instruments	3,536	93,840

31. Derivatives (cont'd)

31-5) Cash flow hedges

Due to various reasons (i.e. currency swap contracts for cash flow hedges have reached maturity), the effective portion of hedges for the years ended December 31, 2015 and 2014 realized as gain on valuation of derivative instruments amount to ₩5,684 million and ₩6,278 million, respectively, and loss on valuation of derivative instruments amount to ₩8,799 million and ₩11,570 million, respectively. Meanwhile, the ineffective portion of cash flow hedges recognized as gain amount to ₩3 million and ₩2 million for the years ended December 31, 2015 and 2014, respectively.

The maximum expected expiration date of which the Group's cash flows are exposed to fluctuation risk is February 1, 2027 based on derivative instrument contract to which cash flow hedges apply.

32. Separate accounts

32-1) Assets and liabilities of separate account as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Insurance contract and investments contract with discretionary participating feature:				
Retirement insurance	₩ 126,210	₩ 126,210	₩ 139,236	₩ 139,236
variable life insurance	13,391,243	13,398,913	12,436,256	12,436,256
	13,517,453	13,525,123	12,575,492	12,575,492
Investments contract with no discretionary participating feature:				
Retirement insurance	2,196	2,176	8,851	8,822
Retirement pension	3,929,155	3,903,498	3,167,100	3,135,504
	3,931,351	3,905,674	3,175,951	3,144,326
Separate accounts receivable	-	(79,330)	-	(49,471)
Separate accounts payable	(578,125)	-	(488,870)	-
	₩ 16,870,679	₩ 17,351,467	₩ 15,262,573	₩ 15,670,347

32. Separate accounts (cont'd)

32-2) Separate account in the statements of financial position as of December 31, 2015 and 2014 are as follows (Korean won in millions):

1) Insurance contract and investments contract with discretionary participating feature

	December 31, 2015		December 31, 2014	
Assets:				
Cash and due from banks	₩	350,797	₩	580,182
Trading assets		12,487,420		11,539,958
Loans		313,609		136,011
Other assets		228,851		167,547
General account credits		144,446		151,794
	₩	13,525,123	₩	12,575,492
Liabilities :				
Other liabilities	₩	57,918	₩	46,123
General account debits		59,489		43,810
		117,407		89,933
Reserve for policy holders		13,407,716		12,485,559
	₩	13,525,123	₩	12,575,492

2) Investments contract with no discretionary participating feature

	December 31, 2015		December 31, 2014	
Assets:				
Cash and due from banks	₩	268,389	₩	67,139
Trading assets		265,334		97,728
Available-for-sale financial assets		2,873,878		2,623,515
Held-to-maturity financial assets		46,900		-
Loans		89,815		85,765
Other assets		39,762		32,461
General account credits		433,680		337,075
		4,017,680		3,243,683
Consolidated adjustments		(85,811)		(67,732)
	₩	3,931,947	₩	3,175,951
Liabilities:				
Other liabilities	₩	50,043	₩	14,804
General account debits		19,841		5,660
		69,884		20,464
Reserve for policy holders		3,835,790		3,123,844
Accumulated other comprehensive income		26,273		31,643
		3,862,063		3,155,487
	₩	3,931,947	₩	3,175,951

32. Separate accounts (cont'd)

32-3) Revenues and expenses of separate accounts for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

1) Insurance contract and investments contract with discretionary participating feature

	2015		2014	
	Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:				
Premium income	₩ 9	₩ 2,954,649	₩ 23	₩ 2,930,225
Interest income	1,974	152,519	2,602	182,444
Dividends income	928	61,085	242	33,220
Gain on securities	349	682,763	1,330	482,850
Gain on foreign currency transaction	-	234	-	46
Gain on derivatives	-	177,999	-	165,634
Other income	60	39,765	1	40,368
	₩ 3,320	₩ 4,069,014	₩ 4,198	₩ 3,834,787
Expenses:				
Increase(decrease) in policy reserves	₩ (11,917)	₩ 976,086	₩ (14,811)	₩ 906,436
Insurance claims paid	13,780	1,552,492	17,919	1,394,884
Minimum guarantee fee	-	59,367	-	52,734
Separate account commission	793	719,323	918	50,530
Commission fee	-	39,841	-	30,998
Reversal of loan losses	-	(14)	-	(67)
Loss on securities	664	545,003	161	585,249
Loss on foreign currency transaction	-	87	-	106
Loss on transaction of derivatives	-	176,829	-	161,345
Other expenses	-	-	11	652,572
	₩ 3,320	₩ 4,069,014	₩ 4,198	₩ 3,834,787

32. Separate accounts (cont'd)

32-3) Revenues and expenses of separate accounts for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

2) Investments contract with no discretionary participating feature

	2015		2014	
	Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:				
Interest income	₩ 79,209	₩ 544	₩ 84,237	₩ 925
Dividend income	3,445	80	640	60
Gain on securities	19,533	1,770	15,161	1,556
Gain on foreign currency transaction	229	-	42	-
Gain on transaction of derivatives	832	328	57	-
Other income	23,541	2	9,974	2
	126,789	2,724	110,111	2,543
Consolidated adjustments	(2,108)	-	(2,052)	-
	₩ 124,681	₩ 2,724	₩ 108,059	₩ 2,543
Expenses:				
Interest expenses of withholdings	₩ 65,697	₩ 963	₩ 82,416	₩ 32
Separate account commission	30,395	(599)	14,922	251
Commission fee	16	118	7	118
Provision for loan losses	44	-	69	-
Loss on securities	7,849	1,973	3,730	1,764
Loss on foreign currency transaction	219	-	18	-
Loss on transaction of derivatives	22,004	269	6,847	-
Other expenses	565	-	2,102	378
	126,789	2,724	110,111	2,543
Consolidated adjustments	(2,108)	-	(2,052)	-
	₩ 124,681	₩ 2,724	₩ 108,059	₩ 2,543

32-4) In accordance with the regulations under Trust Business Act, the Group separately accounts for the trust assets from existing assets, and recognizes trust commission fee as operating revenue when receiving trust commission fee. As of December 31, 2015 the total amount of the trust funds under contract with the Group is ₩20,837,481 million.

33. Equity

33-1) Equity as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Capital stock:		
Common stock	₩ 102,500	₩ 102,500
Capital surplus:		
Share premium	359,937	359,937
Asset revaluation surplus	70,425	70,425
Others	6,260	7,594
	436,622	437,956
Capital adjustments:		
Loss on valuation of investments using equity method	(8,995)	(8,995)
Others	(11,055)	(10,850)
	(20,050)	(19,845)
Accumulated other comprehensive income, net of tax:		
Gain on valuation of available-for-sale financial assets	519,249	517,425
Gain on valuation of derivatives	23,815	14,460
Gain on valuation of investment of associates	65	122
Other comprehensive income of separate account	19,915	23,971
Gain on valuation of held-for-maturity financial assets	37,011	41,907
Gain on revaluation of property and equipment	549,387	509,189
Foreign currency translation adjustments for foreign operations	(122)	(106)
Remeasurement loss related to defined benefit plan	(34,121)	9,141
	1,115,199	1,116,109
Retained earnings:		
Legal reserve	51,250	51,250
Regulatory reserve for loan loss	100,715	100,733
Retained earnings	5,399,946	4,863,855
	5.551,911	5,016,838
Non-controlling interests	337,227	303,566
	₩ 7,523,409	₩ 6,957,124

33-2) Capital stock

Capital stock as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Number of authorized shares	100,000,000 shares	100,000,000 shares
Par value per share in won	₩ 5,000	₩ 5,000
Number of issued common stocks outstanding	20,500,000 shares	20,500,000 shares
Capital stock	₩ 102,500	₩ 102,500

33. Equity (cont'd)

33-3) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015								
	Gain on valuation of AFS assets	Loss on valuation of derivatives	Gain (loss) on valuation of investment of associates	Other com-prehensive income of separate account	Gain on valuation of held-for-maturity financial assets	Gain on revaluation of property and equipment	Foreign currency translation adjustments for foreign operations	Remeasurement gain(loss) related to DBO	Total
Beginning balance	₩ 517,425	₩ 14,460	₩ 122	₩ 23,971	₩ 41,907	₩ 509,189	₩ (106)	₩ 9,141	₩ 1,116,109
Fair value evaluation	99,805	34,172	18	4,939	-	-	(854)	1,106	139,186
Realization of income	(87,283)	(21,761)	-	(10,291)	(12,363)	-	-	-	(131,698)
Conversion to retained earnings	-	-	-	-	-	(3,480)	-	-	(3,480)
Hedging	-	-	-	-	-	-	-	-	-
Exchange rate effect	-	-	-	-	-	-	239	-	239
Policyholder's equity adjustment (*)	18,110	-	2,353	-	(11.336)	12,568	-	-	21,695
Deferred income tax effects (*)	(3,939)	(3,056)	(6,909)	1,296	1,563	(2,200)	203	(245)	(13,287)
Non-Consolidated adjustments	1,011	-	(7)	-	-	41,090	315	(40,416)	1,993
Others	(25,880)	-	4,488	-	17,240	(7,780)	81	(3,707)	(15,558)
Ending balance	₩ 519,249	₩ 23,815	₩ 65	₩ 19,915	₩ 37,011	₩ 549,387	₩ (122)	₩ (34,121)	₩ 1,115,199

(*) Allocation to policyholder's equity adjustment and tax effect of changes in comprehensive income in the reporting period.

33. Equity (cont'd)

33-3) Accumulated other comprehensive income (cont'd)

	2014								
	Gain on valuation of AFS assets	Loss on valuation of derivatives	Gain (loss) on valuation of investment of associates	Other com-prehensive income of separate account	Gain on valuation of held-for-maturity financial assets	Gain on revaluation of property and equipment	Foreign currency translation adjustments for foreign operations	Remeasurement gain(loss) related to DBO	Total
Beginning balance	₩ 346,453	₩ (18,661)	₩ 68	₩ 1,384	₩ 47,635	₩ 549,133	₩ (251)	₩ (17,164)	₩ 908,597
Fair value evaluation	504,401	24,065	-	29,799	-	-	-	(16,558)	541,707
Realization of income	(161,784)	19,630	-	-	(11,031)	-	-	(77)	(153,262)
Conversion to retained earnings	-	-	-	-	-	(11,851)	-	-	(11,851)
Hedging	-	-	-	-	-	-	-	-	-
Exchange rate effect	-	-	-	-	-	-	-	-	-
Policyholder's equity adjustment (*)	(117,441)	-	42	-	3,474	14,742	-	-	(99,183)
Deferred income tax effects (*)	(119,009)	(10,574)	-	(7,212)	1,829	(1,746)	-	3,996	(132,714)
Non-Consolidated adjustments	1,143	-	-	-	-	(40,491)	-	41,258	1,910
Others	63,662	-	12	-	-	(600)	145	(2,314)	60,905
Ending balance	₩ 517,425	₩ 14,460	₩ 122	₩ 23,971	₩ 41,907	₩ 509,187	₩ (106)	₩ 9,141	₩ 1,116,109

(*) Allocation to policyholder's equity adjustment and tax effect of changes in comprehensive income in the reporting period.

33-4) Retained earnings

1) Legal reserve

Legal reserve is restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the Group is required 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 not be allocated in cash and may be used to reduce a deficit or may be transferred to capital based on the decision of board of directors.

2) Regulatory reserve for loan loss

Where the accumulated amount of allowances for loan losses and allowances for other receivables losses at the end of period (including a quarterly closing) is less than amounts required by the FSS, the Group accumulates such balance as Regulatory reserve for loan loss.

33. Equity (cont'd)

33-4) Retained earnings (cont'd)

The reserve is calculated for corporate loans, household loans and loans for real estate project financing, respectively. The amount is limited to the amount calculated by deducting the reserve accumulated pursuant to the Insurance Business Act and other laws from retained earnings.

Where there is an unappropriated deficit, the reserve is accumulated from the time when the unappropriated deficit is appropriated, and where the existing reserve accumulated exceeds the reserve that should be accumulated as of the end of a period, such exceeding amount may be transferred.

① Regulatory reserve for loan loss as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Regulatory reserve for loan loss				
Accumulated	₩	100,715	₩	101,733
To be accumulated (reversed)		12,461		(1,018)
Balance	₩	113,176	₩	100,715

② Provision for regulatory reserve for loan loss and income adjusted for regulatory reserve are as follows (Korean won in millions):

	2015		2014	
Income for the period	₩	607,850	₩	505,250
Provision for regulatory reserve for loan		(12,461)		1,018
Income adjusted for regulatory reserve (*)	₩	595,389	₩	506,268
Basic earnings per share adjusted for regulatory reserve in Korean won	₩	29,043	₩	24,696

(*) Net income adjusted for regulatory reserve above is non-KIFRS financial information. The adjustment amount is calculated under the assumption that provision for regulatory reserve is reflected on the consolidated current net income of the equity held by the Group without considering policyholders' equity adjustment and deferred tax effect.

34. Premium Income

Premium income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		2014	
Individual insurance:				
Pure endowment	₩	2,419,803	₩	2,985,633
Death		4,296,518		4,031,018
Endowment		1,006,657		950,402
		7,723,078		7,967,053

34. Premium Income (cont'd)

Premium income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2015	2014
Group insurance:		
Pure protection	100,637	98,953
Savings	11,912	12,027
	112,549	110,980
	₩ 7,835,627	₩ 8,078,033

35. Reinsurance income

35-1) Reinsurance as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Reinsurance account receivable	₩ 46,318	₩ 44,922
Reinsurance assets:		
Reserve for unearned premium	3,787	3,798
Reserve for outstanding claims	2,827	2,999
Incurred but not reported	11,800	12,170
	18,414	18,967
	₩ 64,732	₩ 63,889
Reinsurance accounts payable	₩ 39,010	₩ 39,093

35-2) Transactions with reinsurance companies incurred for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015			
	Reinsurance expense	Reinsurance claim revenue	Reinsurance commission revenue	Profit(loss) from reinsurance asset
Individual insurance:				
Domestic	₩ (88,248)	₩ 58,010	₩ 25,671	₩ (500)
Overseas	(1,484)	779	494	(3)
	(89,732)	58,789	26,165	(503)
Group insurance:				
Domestic	(1,145)	1,409	-	(51)
	₩ (90,877)	₩ 60,198	₩ 26,165	₩ (554)

35. Reinsurance income (cont'd)

35-2) Transactions with reinsurance companies incurred for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2014			
	Reinsurance expense	Reinsurance claim revenue	Reinsurance commission revenue	Profit(loss) from reinsurance asset
Individual insurance:				
Domestic	₩ (88,677)	₩ 58,817	₩ 25,019	₩ (191)
Overseas	(1,387)	988	398	(402)
	(90,064)	59,805	25,417	(593)
Group insurance:				
Domestic	(1,095)	1,636	-	2
	₩ (91,159)	₩ 61,441	₩ 25,417	₩ (591)

36. Interest income

Interest income for the years ended December 31, 2015 and 2014 and are as follows (Korean won in millions):

	2015	2014
Cash and due from banks	₩ 28,625	₩ 30,194
Trading assets	85,691	91,548
Available-for-sale financial assets	575,599	610,278
Held-to-maturity financial assets	882,266	762,479
Loans	983,169	1,042,013
Derivatives	87,898	91,968
Others	6,794	7,079
	₩ 2,650,042	₩ 2,635,558

37. Gain on valuation and disposal of financial instruments

Gain on valuation and disposal of financial instruments for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Financial assets designated at fair value through profit or loss:		
Gain on valuation	₩ 7,140	₩ 6,997
Gain on disposal	7,082	4,949
Trading assets:		
Gain on valuation	13,596	22,587
Gain on disposal	112,395	99,390
Available-for-sale financial assets:		
Gain on disposal	344,697	226,175
Held-to-maturity financial assets:		
Gain on disposal	640	96
Loans:		
Gain on disposal	3,215	4
Other receivables:		
Reversal of allowance of bed debt	902	-
Financial liabilities designated at fair value through profit or loss:		
Gain on valuation	52,785	37,951
Gain on disposal	4,675	12,364
Trading liabilities:		
Gain on valuation	721	1,230
Gain on disposal	10,551	11,095
Derivatives:		
Gain on valuation	123,277	130,072
Gain on disposal	227,464	120,072
	₩ 909,140	₩ 672,982

38. Fees and commission income

Fees and commission income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Brokerage commissions	₩ 90,501	₩ 60,121
Underwriting commissions	10,679	6,526
Credit placement fees	18,924	14,073
Financial advisory fees	10,390	4,642
Brokerage commissions on collective investment securities	7,754	4,236
Sales commissions on derivatives-combined securities	2,207	2,207
Others	93,960	55,685
	₩ 234,415	₩ 147,490

39. Dividend income

Dividend income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Trading assets:		
Equity securities	₩ 2,682	₩ 2,147
Available-for-sale financial assets:		
Equity securities	54,621	28,126
Equity investments	3,155	205
Beneficiary certificates	157,051	118,851
Overseas securities	48,411	28,777
	263,238	175,959
	₩ 265,920	₩ 178,106

40. Other operating income

Other operating income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Merchandise sales	₩ 556,800	₩ 553,179
Product sales	3,761	2,935
Other sales	117,314	89,902
Other operating profits	10,127	4,571
	₩ 688,002	₩ 650,587

41. Insurance claims paid

Insurance claims paid for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

		2015	2014
Benefit payments	Individual insurance:		
	Pure endowment	₩ 107,765	₩ 57,612
	Death	514,481	451,129
	Endowment	113,316	83,733
		735,562	592,474
	Group insurance:		
	Pure protection	46,623	82,863
	Savings	340	1,498
		46,963	84,361
		782,525	676,835
Refunds for the insurance	Individual insurance:		
	Pure endowment	1,891,875	1,724,995
	Death	1,858,632	1,864,164
	Endowment	351,728	300,298
		4,102,235	3,889,457
	Group insurance:		
	Pure protection	73,047	75,730
	Savings	7,704	8,710
		80,751	84,440
		4,182,986	3,973,897
Dividend expenses	Individual insurance:		
	Pure endowment	23,498	20,208
	Death	2,436	1,991
	Endowment	919	1,100
		26,853	23,299
	Group insurance:		
	Pure protection	1,810	1,950
	Savings	8	8
		1,818	1,958
		28,671	25,257
		₩ 4,994,181	₩ 4,675,987

42. Operating and administrative expenses

Operating and administrative expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Policy acquisition costs:		
Agent commission	₩ 573,566	₩ 588,053
Branch office operation	68,177	71,331
Sales promotion	84,503	83,144
Advertising expense	8,178	3,209
Others	199,103	209,189
	933,527	954,926
Maintenance expenses:		
Wages and salaries	193,944	200,099
Bonuses	87,254	80,294
Employment benefits	61,325	67,853
Severance benefits	28,478	122,354
Taxes and dues	103,942	91,078
Office rent	66,847	70,831
Depreciation	21,699	24,469
Commission	57,653	57,955
Information technology	6,511	5,770
Collection	6,671	6,723
Others	31,218	30,485
	665,542	757,911
Deferred acquisition cost	(769,328)	(836,388)
	₩ 829,741	₩ 876,449

43. Asset management expenses

Asset management expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Wages and salaries	₩ 20,037	₩ 22,492
Bonuses	9,480	9,169
Severance benefits	2,847	10,758
Employment benefits	6,095	7,194
Communication	2,383	2,482
Repairs and maintenance	288	163
Outsourcing fee	14,450	14,746
Commission	30,579	31,718
Information technology	1,357	956
Taxes and dues	12,297	12,148
Depreciation	778	627
Others	4,218	4,520
	₩ 104,809	₩ 116,973

44. Interest expense

Interest expense for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Borrowings	₩ 47,025	₩ 54,548
Derivatives	69,275	63,189
Others	13,678	13,802
	₩ 129,978	₩ 131,539

45. Loss on valuation and disposal of financial instruments

Loss on valuation and disposal of financial instruments for the years December 31, 2015 and 2014 are as follows (Korean won in millions) :

	2015	2014
Financial assets designated at fair value through profit or loss:		
Loss on valuation	₩ 11,479	₩ 13,839
Loss on disposal	7,095	4,641
Trading assets:		
Loss on valuation	25,973	26,411
Loss on disposal	85,961	71,036
Available-for-sale financial assets:		
Impairment loss	32,114	3,888
Loss on disposal	154,325	68,477
Held-to-maturity financial assets:		
Loss on disposal	36	-
Loans:		
Provision for loan losses	21,260	19,021
Loss on disposal	-	4,848
Other receivables:		
Provision for other receivables	-	2,889
Financial liabilities designated at fair value through profit or loss:		
Loss on valuation	17,804	27,463
Loss on disposal	43,870	31,954
Trading liabilities:		
Loss on valuation	5,256	2,096
Loss on disposal	15,977	23,521
Derivatives:		
Loss on valuation	517,315	344,217
Loss on disposal	316,479	99,175
	₩ 1,254,944	₩ 743,476

46. Other operating expenses

Other operating expenses for the years ended December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	2015	2014
Depreciation	₩ 10,413	₩ 10,078
Amortization	9,810	10,304
Fees and commission expense	17,002	12,097
Cost of sales- merchandise	392,509	396,765
Cost of sales-service	137,713	118,027
Cost of sales-products	2,839	1,051
Cost of other goods sold	12,831	13,735
General and administrative expenses	369,695	337,599
Insurance discount	1,187	1,167
Others	3,069	4,253
	₩ 957,068	₩ 905,076

47. Foreign currency translation

47-1) Foreign currency denominated assets and liabilities as of December 31, 2015 and 2014 are summarized as follows (U.S Dollar, Euro and Japanese Yen in thousands and Korean won in millions):

	December 31, 2015		December 31, 2014	
	Amount of foreign currency	Amount of translation	Amount of foreign currency	Amount of translation
Foreign cash and due from banks				
USD	412,013	₩ 483,066	225,040	₩ 247,381
JPY	57,455	558	7,627	263
EUR	22,161	28,378	2	2
Others	50,066	594,029	61,745	68,971
Trade assets				
USD	506,843	594,029	211,717	232,721
Available-for-sale financial assets				
USD	2,092,092	2,452,978	2,380,927	2,617,353
JPY	1,290,000	12,440	6,568,946	60,444
EUR	170,439	218,252	107,528	143,714
Others	130,065	19,667	-	-
Held-to-maturity financial assets				
USD	4,741,385	5,559,274	2,489,274	2,736,459
Loans				
JPY	3,200,000	30,100	-	-
Other financial assets				
USD	103,695	121,580	71,933	79,075
JPY	12,625	122	-	-

47. Foreign currency translation (cont'd)

47-1) Foreign currency denominated assets and liabilities as of December 31, 2015 and 2014 are summarized as follows (U.S Dollar, Euro and Japanese Yen in thousands and Korean won in millions) (cont'd):

	December 31, 2015		December 31, 2014	
	Amount of foreign currency	Amount of translation	Amount of foreign currency	Amount of translation
Financial assets Total				
USD	7,856,028	₩ 9,210,927	5,378,890	₩ 5,912,989
JPY	4,560,080	43,220	6,576,573	60,707
EUR	192,600	246,630	107,530	143,716
Others	180,131	78,346	61,745	68,971
Other financial liabilities				
USD	339,625	₩ 398,041	4,530	₩ 4,980
JPY	56,128	546	177	195
EUR	114	146	1	1
Others	279	327	2	2

47-2) Gain or loss on foreign currency transactions for the years ended December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

	2015			
	Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency translation	Loss on foreign currency translation
Financial assets designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ 4,074
Trade assets	876	3,747	31,048	840
Available-for-sale financial assets	33,260	6,396	138,963	4,585
Held-to-maturity financial assets	5,867	863	269,030	2,697
Others	58,226	60,403	23,663	10,835
	₩ 98,229	₩ 71,409	₩ 462,704	₩ 23,031

	2014			
	Gain on foreign currency transaction	Loss on foreign currency transaction	Gain on foreign currency translation	Loss on foreign currency translation
Financial assets designated at fair value through profit or loss	₩ -	₩ -	₩ -	₩ 6,495
Trade assets	890	1,903	5,115	1,332
Available-for-sale financial assets	8,164	13,374	96,602	10,512
Held-to-maturity financial assets	2,038	1,267	141,830	1,675
Others	9,433	8,444	25,547	21,738
	₩ 20,526	₩ 24,987	₩ 269,094	₩ 41,751

48. Non-operating income and expenses

48-1) Non-operating income for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Valuation of investment in joint venture and associates	₩ 13,951	₩ 20,357
Disposal of investment in joint venture and associates	11	-
Disposal of investment properties	25	1,786
Disposal of property and equipment	149	488
Disposal of intangible assets	32	300
Disposal of non-current assets held-for-sale	280	1,891
Miscellaneous gains	8,816	7,844
	₩ 23,264	₩ 32,666

48-2) Non-operating expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Valuation of investment in joint venture and associates	₩ 26	₩ 14,467
Disposal of investment properties	859	2,368
Impairment of investment properties	5,278	4,174
Disposal of property and equipment	4,472	5,035
Impairment of property and equipment	18,501	67
Disposal of non-current assets held-for-sale	823	149
Impairment of intangible assets	269	461
Disposal of intangible assets	-	84
Donations	23,121	22,027
Miscellaneous losses	7,619	8,342
	₩ 60,968	₩ 57,174

49. Income tax expenses

49-1) Income tax expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

		2015		2014
Current income tax expense	₩	246,121	₩	222,436
Reserve of expected additional tax due to surtax on undistributed corporate earnings for the following year		13,307		-
Origination and reversal of temporary differences		1,549		(2,448)
Income tax expense directly recognized in equity		(9,736)		(65,707)
Additional refund of income taxes		(5,776)		(42,553)
Others		(10,546)		-
Income tax expenses	₩	233,357	₩	111,728

49-2) Income tax expenses calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

		2015		2014
Income before income taxes	₩	877,471	₩	629,203
Income taxes at statutory tax rates		227,259		151,805
Adjustments:				
Non-deductible expense (non-taxable income)		(1,434)		2,476
Reserve of expected additional tax due to surtax on undistributed corporate earnings for the following year		13,307		-
Additional refund of income taxes		(5,776)		(42,553)
Income tax expenses	₩	233,357	₩	111,728
Effective tax rate (%)		26.59%		16.11%

49. Income tax expenses (cont'd)

49-3) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		
	Beginning balance	Increase (Decrease)	Ending Balance
Deferred tax assets:			
Depreciation	₩ 8,463	₩ 3,773	₩ 12,236
Loss on valuation of trading assets	1,503	909	2,412
Impairment loss on financial assets	22,592	1,533	24,125
Foreign currency transaction loss	168	(19)	149
Taxes and dues	8,518	1,767	10,285
Liabilities for defined benefit obligations	38,153	(14,777)	23,376
Loss on valuation of derivatives	52,341	98,126	150,467
Accrued bonus expenses	7,608	(24)	7,584
Miscellaneous losses (impairment loss on land)	1,848	1,050	2,898
Miscellaneous losses (dormant insurance payments)	9,011	145	9,156
Minimum policyholder reserves	84,532	40,972	125,504
Contingent liabilities	1,672	1,009	2,681
Loss on revaluation of land	(3,644)	7,345	3,701
Others	345,545	11,436	356,981
	578,310	153,245	731,555
Deferred tax liabilities:			
Gain on valuation of trading assets	(66,158)	34,950	(31,208)
Interest income	(125,057)	(26,443)	(151,500)
Valuation gains and losses on assets and liabilities in foreign currency	(57,775)	(96,222)	(153,997)
Allowance for acceptances and guarantees	(21,809)	150	(21,659)
Gain (loss) on valuation of available-for-sale financial assets	(174,423)	(3,944)	(178,280)
Gain on valuation of derivatives	(4,617)	(3,055)	(7,672)
Gains on valuation of investments in associates	(10,702)	(6,908)	(17,610)
Revaluation surplus of property and equipment	(185,537)	(3,810)	(189,347)
Others	(280,599)	(49,513)	(330,112)
	(926,590)	(154,795)	(1,081,385)
	₩ (348,281)	₩ (1,550)	₩ (349,830)

49. Income tax expenses (cont'd)

49-3) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions) (cont'd):

	2014		
	Beginning balance	Increase (Decrease)	Ending Balance
Deferred tax assets:			
Depreciation	₩ 10,200	₩ (1,737)	₩ 8,463
Loss on valuation of trading assets	-	1,503	1,503
Impairment loss on financial assets	21,000	1,592	22,592
Foreign currency transaction loss	2,368	(2,200)	168
Taxes and dues	5,614	2,904	8,518
Liabilities for defined benefit obligations	14,232	23,921	38,153
Loss on valuation of derivatives	3,846	48,495	52,341
Accrued bonus expenses	5,611	1,997	7,608
Miscellaneous losses (impairment loss on land)	4,293	(2,445)	1,848
Miscellaneous losses (dormant insurance payments)	10,061	(1,050)	9,011
Minimum policyholder reserves	59,390	25,142	84,532
Contingent liabilities	41	1,631	1,672
Loss on revaluation of land	3,709	(7,353)	(3,644)
Gain (loss) on valuation of available-for-sale financial assets	4,516	(4,516)	-
Others	178,097	167,448	345,545
	322,978	255,332	578,310
Deferred tax liabilities:			
Gain on valuation of trading assets	(122,022)	55,864	(66,158)
Interest income	(96,380)	(28,677)	(125,057)
Valuation gains and losses on assets and liabilities in foreign currency	-	(57,775)	(57,775)
Allowance for acceptances and guarantees	(22,417)	608	(21,809)
Gain (loss) on valuation of available-for-sale financial assets	(96,096)	(78,240)	(174,336)
Gain on valuation of derivatives	-	(4,617)	(4,617)
Gains on valuation of investments in associates	(17,614)	6,912	(10,702)
Revaluation surplus of property and equipment	(160,113)	(25,424)	(185,537)
Others	(159,064)	(121,535)	(280,599)
	(673,706)	(252,884)	(926,590)
	₩ (350,728)	₩ (2,448)	₩ (348,280)

49. Income tax expenses (cont'd)

49-4) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	January 1, 2015		Changes		December 31, 2015	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
Revaluation reserves	₩ 90,288	₩ (19,863)	₩ -	₩ -	₩ 90,288	₩ (19,863)
Gain (loss) on valuation of available-for-sale financial assets	538,201	(174,336)	146,316	9,068	684,517	(165,268)
Gain (loss) on cash flow hedge	19,077	(4,617)	12,411	(3,055)	31,488	(7,672)
Gain (loss) on valuation of investments associates	64,210	(10,424)	(60,501)	6,780	3,709	(3,644)
The accumulated other comprehensive income in separate account	31,625	(7,653)	(5,352)	1,295	26,273	(6,358)
Gain (loss) on valuation of held-to-maturity financial assets	55,286	(13,379)	(6,459)	1,563	48,827	(11,816)
Revaluation surplus of property and equipment	654,983	(148,312)	53,012	(10,296)	707,995	(158,608)
Remeasurement gain (loss) related to defined benefit plan	(25,403)	7,648	(19,646)	3,158	(45,049)	10,806
	₩ 1,428,267	₩ (370,936)	₩ 119,781	₩ 8,513	₩ 1,548,048	₩ (362,423)

	January 1, 2014		Changes		December 31, 2014	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
Revaluation reserves	₩ 90,288	₩ (19,863)	₩ -	₩ -	₩ 90,288	₩ (19,863)
Gain (loss) on valuation of available-for-sale financial assets	450,240	(108,948)	87,961	(65,388)	539,201	(174,336)
Gain (loss) on cash flow hedge	(24,618)	5,958	43,695	(10,575)	19,077	(4,617)
Gain (loss) on valuation of investments associates	89	(22)	64,121	(10,402)	64,210	(10,424)
The accumulated other comprehensive income in separate account	1,826	(442)	29,799	(7,211)	31,625	(7,653)
Gain (loss) on valuation of held-to-maturity financial assets	62,843	(15,208)	(7,557)	1,829	55,286	(13,379)
Revaluation surplus of property and equipment	711,381	(172,152)	(56,398)	23,840	654,983	(148,312)
Remeasurement gain (loss) related to defined benefit plan	(22,541)	5,448	(2,862)	2,200	(25,403)	7,648
	₩1,269,568,	₩ (305,229)	₩ 158,759	₩ (65,707)	₩ 1,428,267	₩ (370,936)

49. Income tax expenses (cont'd)

49-5) Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Deferred tax assets	₩	731,555	₩	578,310
Deferred tax liabilities		(1,081,385)		(926,590)
Deferred tax liabilities, net	₩	(349,830)	₩	(348,280)
Current tax assets	₩	214,612	₩	191,101
Current tax liabilities		(257,866)		(219,863)
Current tax liabilities, net	₩	(43,254)	₩	(28,762)

Because the individual companies of the Group's consolidation have no rights or intentions to offset the corporate income tax, the deferred tax assets of the individual companies are separated from the above net amounts, and accordingly, the deferred tax assets as of December 31, 2015 and 2014 separately stated in the financial statements are ₩ 6,519 million and ₩ 5,315 million, and the current tax assets are ₩ 12,864 million and \14,174 million, respectively.

50. Employee benefits

Details of employee benefits for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		2014	
Short-term and other long-term employee benefits	₩	533,763	₩	380,782
Post-employment benefits (*)		46,613		145,172

(*) Post-employment include ₩ 2,110 million and ₩ 106,625 million of termination benefits for the years ended December 31, 2015 and 2014, respectively and ₩ 5,814 million and ₩ 6,629 million of defined contribution plans for the years ended December 31, 2015 and 2014, respectively.

51. Commitments and contingencies

51-1) Legal contingencies outstanding

There are 179 litigations that the Group is accused of including the ones for the payment of insurance claims with litigation costs amounting to ₩ 27,367 million as of December 31, 2015. Furthermore, there are 36 litigations where the Group is the plaintiff with litigation costs amounting to ₩ 6,018 million. The outcome of litigations cannot be predicted at the moment. The Group has appropriated reserve for the payment of above insurance claim in the amount of ₩ 7,125 million, and provisions in the amount of ₩ 813 million for the payment of general claims.

51-2) Insurance commitments

The contract amounts under the insurance contracts in the general and separate accounts as of December 31, 2015 are as follows (Korean won in millions):

	Number of contract	Total contract amount
General account	8,497,214	₩ 309,363,537
Separate account	761,414	4,046,348
	9,258,628	₩ 313,409,885

51. Commitments and contingencies (cont'd)

51-3) Reinsurance agreements

The reinsurance agreements of individual and group insurance as of December 31, 2015 are as follows:

Reinsurance method	Reinsurance company	Ceding ratio (%)	Nature of risk
Surplus	SCOR Reinsurance Asia-Pacific	100	Occupational excessive risk
Surplus	”	100	Excessive risk
Surplus	Korean Re	100	Kyobo Big Love Guarantee Insurance
Surplus, Quota Share	MunichRe	60	Excessive risk
Surplus, Quota Share	KoreanRe	50	Excessive risk
Quota Share	GeneralCologne Re	10	Accidental insurance
Quota Share	”	10	Individual medical insurance
Quota Share	”	30	CI whole life reinsurance
Quota Share	”	30	Second CI Guarantee reinsurance
Quota Share	Hannover Re	10	CI reinsurance
Quota Share	”	10	Direct health insurance
Quota Share	”	30	Kyobo cancer insurance
Quota Share	”	80	Facultative reinsurance
Quota Share	”	10 ~ 25	Individual medical Insurance
Quota Share	KoreanRe	10	CI whole life reinsurance
Quota Share	”	30	Kyobo cancer Insurance
Quota Share	”	80	Facultative reinsurance
Quota Share	”	20 ~ 25	Individual medical Insurance
Quota Share	MeijiYasuda Life Insurance	2	Whole life insurance
Quota Share	”	25	Direct accidental insurance
Quota Share	Munich Re	10	CI reinsurance
Quota Share	”	30	LTC (Silver care insurance)
Quota Share	”	80	Facultative reinsurance
Quota Share	RGA Re	20	Kyobo cancer insurance
Quota Share	”	50	Mortality(term insurance and whole life insurance)
Quota Share	”	80	Facultative reinsurance
Quota Share	SCOR Reinsurance Asia-Pacific	10	Individual medical insurance
Quota Share	”	15	CI reinsurance
Quota Share	”	15	Direct health insurance
Quota Share	”	30 ~ 60	Top Class Cancer insurance

51. Commitments and contingencies (cont'd)

51-4) Purchase commitment of commercial paper

The Group provides ABCP purchase commitments amounting to ₩582,700 million and ₩586,700 million as of December 31, 2015 and 2014, respectively and CP gross underwriting commitments amounting to ₩180,000 million and ₩180,000 million as of December 31, 2015 and 2014, respectively to SPC etc for projects of business developers and the details are as follows (Korean won in millions):

	Amount		Period	Descriptions
CSP 14th L.L.C.	₩	10,000	2013.04.23~2016.04.22	ABCP purchase commitments
ABFT 1st Co., Ltd.		37,000	2013.09.02~2018.09.21	ABCP purchase commitments
WHITE GLORY Co., Ltd.		10,500	2013.09.03~2018.09.21	ABCP purchase commitments
ABFT 2nd Co., Ltd.		37,000	2013.09.13~2018.09.21	ABCP purchase commitments
IBS 12th Co., Ltd.		41,000	2013.09.17~2018.09.21	ABCP purchase commitments
LISBOA 3rd L.L.C.		42,000	2013.09.24~2018.12.21	ABCP purchase commitments
JBDPROJECT 2nd Co., Ltd.		41,000	2013.10.07~2018.12.21	ABCP purchase commitments
RUCHINAKISS 1st Co., Ltd.		37,000	2013.10.16~2018.12.21	ABCP purchase commitments
ABFT 3rd Co., Ltd.		32,000	2013.10.28~2018.12.21	ABCP purchase commitments
DWSONGSAN 1st Co., Ltd.		36,000	2014.01.14~2016.09.29	ABCP purchase commitments
DH 1st		26,400	2014.05.13~2016.12.30	ABCP purchase commitments
MS Sejong 3rd Co., Ltd.		10,000	2014.05.27~2017.08.24	ABCP purchase commitments
Uni-City Development 3st Co., Ltd.		30,000	2014.10.21~2017.10.19	ABCP purchase commitments
TW Yudonghwa Co., Ltd.		7,100	2015.01.30~2017.07.17	ABCP purchase commitments
S-Class Ayang 1st.		14,500	2015.04.07~2016.11.01	ABCP purchase commitments
Chungla Jeil Pungkyungchae		30,000	2015.04.24~2018.03.28	ABCP purchase commitments
ABFT Infra		23,000	2015.04.30~2022.04.29	ABCP purchase commitments
S-Class Namyang 1st.		6,900	2015.05.28~2016.10.14	ABCP purchase commitments
S-Class Dongnam 1st.		12,900	2015.06.17~2016.12.13	ABCP purchase commitments
S-Class Dongnam 2nd		9,800	2015.06.17~2016.12.13	ABCP purchase commitments
UnJeong Hill 4th		30,000	2015.11.12~2019.09.11	ABCP purchase commitments
Dream Songjeong Vivaldi 1st		39,100	2015.12.01~2017.09.25	ABCP purchase commitments
K-1 Songjeong		31,600	2015.12.01~2017.04.28	ABCP purchase commitments
		594,800		
INCHEON URBAN Corp.		150,000	2013.07.04~2016.07.04	CP gross underwriting commitments
Total	₩	744,800		

51. Commitments and contingencies (cont'd)

51-5) Stand-by commitments

Stand-by commitments as of December 31, 2015 are as follow (Korean won in millions):

Company	Trade Opponent	Amount	Descriptions
Kyobo securities Co,. Ltd	Titan 1st.	₩ 100,000	Debt guarantee
"	K-1 Songdo	43,900	Debt guarantee
"	IK 3rd.	5,000	Debt guarantee
"	Change Gim-po 1 1st.	20,000	Debt guarantee
"	Triumph 1 1st.	30,000	Debt guarantee
"	Triumph 2 1st.	7,000	Debt guarantee
"	New West village	45,000	Debt guarantee
"	Golen bear 1st.	12,000	Debt guarantee
"	District R-1	10,000	Debt guarantee
"	K-1 Alpha	50,000	Debt guarantee
"	BZ1-1st.	50,000	Debt guarantee
"	Nest Poll 2nd	74,000	Debt guarantee
"	Invest Golden Havor	11,200	Debt guarantee
"	ABFT 6th.	8,000	Debt guarantee
"	Flower Soul 1st.	20,000	Debt guarantee
"	K-1 Mow 1st.	30,000	Debt guarantee
"	District S-1	14,800	Debt guarantee
"	Probest-Ace	30,000	Debt guarantee
		₩ 560,900	

51-6) The loan and investment commitments as of December 31, 2015 are as follows (Korean won in millions):

	Amount
Loan commitments	₩ 1,412,765
Investment commitments	1,358,344
	₩ 2,771,109

51-7) Overdraft commitments

The commitments and guarantees as of December 31, 2015 are as follows (Korean won in millions):

	Amount	Counter party	Descriptions
Overdraft commitments	₩ 357,000	Standard Chartered Bank, etc	Margin loans, bank overdraft etc.
Loan line commitments	94,640	KEB Hana Bank, etc	Loan line commitments
Others	970,000	Korea Securities Finance Corp	CP issue limit commitments, etc.
	₩ 1,421,640		

51. Commitments and contingencies (cont'd)

51-8) Securities lending and borrowing

Securities lending and borrowing as of December 31, 2015 are as follows (Korean won in millions):

	Amount	Type	Descriptions
Securities lent	₩ 11,667	Equity securities	Measured by fair value
	180,216	Debt securities	Measured by fair value
	₩ 191,883		

	Amount	Type	Descriptions
Securities borrowed	₩ 2,616,792	Debt securities	Measured by fair value

The Group executes loan transaction and keeps memorandum notes on borrowed securities from Korea Securities Finance Corporation and Korea Securities Depository. The Group keeps accounts for the transaction as financial liabilities designated at fair value through profit or loss when it sells borrowed securities or when it makes a short sale of the borrowed securities.

52. Related parties

52-1) The related parties as of December 31, 2015 and 2014 are as follows:

December 31, 2015

Joint Ventures
Kyobo AXA Investment Managers Co., Ltd., Saengbo Real Estate Trust Co., Ltd.

Associates

A&D Credit Information Co. Ltd., Kocref No. 14, I2S Korea Co., Ltd., Trus Y 7 REIT Co. Ltd., KoFC KyoboHanhwa2010-6, Mastern 2 REIT, Kyobo 4 Special Purpose Acquisition Company, Kyobo 5 Special Purpose Acquisition Company, Hwaseong-Jeongnam General Industry Complexes Co., Ltd.

Others
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture, Lifenet Life Insurance Co., Ltd.

Joint Ventures
Kyobo AXA Investment Managers Co., Ltd., Saengbo Real Estate Trust Co., Ltd.

Associates
A&D Credit Information Co. Ltd., Kocref No.8, Kocref No. 14, I2S Korea Co., Ltd., Trus Y 7 REIT Co. Ltd., KoFC KyoboHanhwa2010-6, Mastern 2 REIT, Kyobo With Special Purpose Acquisition Company, Kyobo 3 Special Purpose Acquisition Company

December 31, 2014

Joint Ventures
Kyobo AXA Investment Managers Co., Ltd., Saengbo Real Estate Trust Co., Ltd.

52. Related parties (cont'd)

52-1) The related parties as of December 31, 2015 and 2014 are as follows (cont'd):

Associates

A&D Credit Information Co. Ltd., Kocref No.8, Kocref No.14, I2S Korea Co., Ltd., Trus Y 7 REIT Co. Ltd., KoFC KyoboHanhwa2010-6, Mastern 2 REIT, Kyobo With Special Purpose Acquisition Company, Kyobo 3 Special Purpose Acquisition Company

Others

Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture, Lifenet Life Insurance Co., Ltd.

52-2) Related parties loans and liabilities

Significant balances with the related parties as of December 31, 2015 and 2014 are summarized as follows (Korean won in millions):

Related party	Account	December 31, 2015	December 31, 2014
Associates:			
Kocref No.14	Loans	₩ 15,000	₩ 15,000
"	Accrued income	77	79
"	Allowances	(8)	(9)
A&D Credit Information Co., Ltd.	Accounts payable	796	839
"	Retirement pension (*)	1,285	1,311
Trus Y 7 REIT Co., Ltd.	Leasehold deposits	559	140
Mastern 2 REIT	Loans	66,813	66,813
"	Accrued income	7	11
"	Allowances	(96)	(115)
Kyobo 4 Special Purpose Acquisition Company	Loans	420	-
Kyobo 5 Special Purpose Acquisition Company	Loans	831	-
Joint Ventures:			
Kyobo AXA Investment Managers Co., Ltd.	Accounts payable	1,035	1,112
"	Leasehold deposits received	784	703
"	Retirement pension (*)	250	239
"	Deposits	815	-
Saengbo Real Estate Trust Co., Ltd.	Accounts receivable	1	-
"	Accounts payable	1	-
"	Retirement pension (*)	2,651	2,502

52. Related parties (cont'd)

52-2) Related parties loans and liabilities (cont'd)

Related party	Account	December 31, 2015	December 31, 2014
Others:			
Kyobo Foundation Building	Leasehold deposits	₩ 129	₩ 199
Daesan Foundation For Rural Culture & Society	Retirement insurance (*)	166	161
Daesan Foundation	Leasehold deposits received	1,346	1,346
”	Retirement insurance (*)	146	439
”	Accounts payable	1	-
Kyobo Foundation For Education & Culture	Retirement insurance (*)	188	292
Lifenet Life Insurance Co., Ltd.	Accounts payable	1	-
Key management personnel	Loans	293	90

(*)Retirement insurance and pension are reserve for policyholders included in separate account liabilities.

52-3) Significant transactions with the related parties

Significant transactions with the related parties for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

		2015		2014	
Related party	Account	Revenues	Expenses	Revenues	Expenses
Associates:					
Kocref No.14	Provision for (reversal of) loan losses	₩ 1	₩ -	₩ -	₩ 3
”	Dividend income	856	-	909	-
”	Interest income	1,035	-	1,035	-
Kocref No.8	Provision for (reversal of) loan losses	-	-	3	-
”	Interest income	-	-	57	-
A&D Credit Information Co., Ltd.	Premium Income (*)	16	-	9	-
”	Dividend income	49	-	98	-
”	Claims paid (*)	-	27	-	52
”	Operating and Administrative expenses	-	8,472	-	9,787
Trus Y 7 REIT CO., Ltd.	Dividend income	222	-	261	-
KoFC KyoboHanhwa2010-6	Other operating income	200	-	-	-
Mastern 2 REIT	Interest income	2,862	-	4,076	-
”	Dividend income	1,039	-	1,166	-
”	Provision for (reversal of) loan losses	20	-	-	42

52. Related parties (cont'd)

52-3) Significant transactions with the related parties (cont'd)

Related party	Account	2015 Revenues	2015 Expenses	2014 Revenues	2014 Expenses
Joint Ventures:					
Saengbo Real Estate Trust Co., Ltd.	Dividend Income	₩ 500	₩ -	₩ 200	₩ -
"	Premium income (*)	40	-	14	-
"	Claims paid (*)	-	65	-	88
"	Other operating income	244	-	-	-
Kyobo AXA Investment Managers Co., Ltd.	Premium income (*)	19	-	13	-
"	Dividend Income	2,550	-	1,800	-
	Rental income	1,335	-	1,253	-
"	Commission income	400	-	-	-
"	Merchandise sales	2	-	-	-
"	Other operating income	209	-	-	-
"	Claims paid (*)	-	6	-	4
"	Operating and Administrative expenses	-	4,295	-	4,263
Others:					
Kyobo Foundation For Education & Culture	Premium income (*)	2	-	1	-
"	Sales	1	-	-	-
"	Non-operating expenses	-	-	-	862
"	Premium income (*)	-	6	-	9
Kyobo Foundation Building	Other operating income	406	-	-	-
"	Office rent expense	-	535	-	367
Daesan Foundation For Rural Culture & Society	Premium income (*)	-	-	1	-
"	Non-operating expenses	-	100	-	700
"	Claims paid (*)	-	7	-	8
Daesan Foundation,	Premium income (*)	2	-	3	-
"	Rental income	68	-	68	-
"	Sales	3	-	-	-
"	Cost of sales	-	11	-	-
"	Claims paid (*)	-	4	-	13
"	Non-operating expenses	-	11	-	-
"	Operating and Administrative expenses	-	872	-	935
Lifenet Life Insurance Co., Ltd.	Other operating expenses	-	1	-	-

(*) Premium income and claims paid belong to profit or loss in separate account.

52. Related parties (cont'd)

52-4) The fund transactions with the related parties for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015					
	Loan transaction				Investment	
Related party	Lending		Collection			
Associates						
Kyobo 4 Special Purpose Acquisition Company	₩	420	₩	-	₩	4
Kyobo 5 Special Purpose Acquisition Company		831		-		15
	₩	1,251	₩	-	₩	19

2) There are no fund transactions with the related parties for the year ended December 31, 2014.

52-5) The Group concluded that the key management includes executives and outside directors who have authority and responsibilities for decision making of the business plan, operations and control over the Group. Key management compensation for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		2014	
Long and short-term employee benefits	₩	15,531	₩	13,895
Retirement benefits		10,903		8,573
	₩	26,434	₩	22,468

53. Earnings per share

Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015		2014	
Net income available for common stock(*)	₩	607,850	₩	505,250
Weighted average number of common shares outstanding		20,500,000 shares		20,500,000 shares
Earnings per share in won	₩	29,651	₩	24,646

(*) Net income available for common stock is relevant to the Company's shares.

The Group's basic earnings per share and diluted earnings per share are the same since there are no potential diluted shares as of December 31, 2015 and 2014.

54. Statement of cash flows

Significant non-cash activities for the years ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015	2014
Changes in valuation gain on available-for-sale financial assets, etc.	₩ 12,278	₩ 170,972
Changes in policyholders' equity adjustments	8,593	101,722
Replacement of revaluation of property and equipment	10,314	14,774
Reclassification for available-for-sale financial assets to held-to-maturity financial assets	215,097	-

55. Risk management

55-1) General

55-1-1) Risk management overview of the Company

The objective of risk management is to effectively manage and control various uncertainties that prevent the Company from achieving its business goal. The Company supports its stable business activities by setting the appropriate risk limits to ensure the risk capital (e.g. solvency margin) is maintained above the minimum risk based capital required by the Financial Supervisory Service even in the environment which various risks may actually realize simultaneously, and also comprehensively manages assets and liabilities portfolios to enhance profitability compared to risk. The Company's risk management process is as follows:

1) Risk identification and classification

The Company identifies risks related to market, credit, interest, insurance, liquidity, operation, strategy, reputation, and variable insurance guarantee as significant risks. Market, credit, interest, insurance, liquidity and variable insurance guarantee risks are classified as financial risks, while operation, strategy, reputation risks are classified as non-financial risks.

2) Risk measurement and management

Market, credit, interest, insurance and operational risks are measured using Value at Risk (VaR) method. Liquidity risk is periodically monitored and managed to ensure liquidity level is adequately maintained by setting the minimum liquidity limit. In addition, variable insurance guarantee risk is periodically measured using a simulation method called the Conditional Tailed Expectation (CTE).

The Company continues to maintain Asset-Liability Management (ALM) policy to secure long-term stable interest rate margins. In order to consistently improve the asset and liability structure, the product sales mix has been weighted more heavily in favor of investment linked products and floating-rate type policies, while cash flow stability has been strengthened through the increase of long-term fixed-rate interest assets. In addition, constant improvements are being made to the ALM systems.

55. Risk management (cont'd)

55-1) General (cont'd)

55-1-1) Risk management overview of the Company (cont'd)

3) Risk control

To hedge, accept, transfer and mitigate risks, the Company sets risk limits at adequate level and monitors if these limits are appropriate and in compliance with the risk management policies and procedures. The risk limits are adjusted as necessary, and a contingency plan is also placed in operation. In addition, the risk management department provides timely feedbacks and ensures fast and proper decision making process for any important decision making matters.

4) Risk monitoring and reporting

The Company monitors various risk factors (e.g. interest rates, stock index, FX rates, etc.), risk quantities by each risk and related monitoring index, and regulatory related index (e.g. solvency margin) on a daily, monthly and quarterly basis using the check list, and if any unusual instances are identified, they are reported to the management or The Risk Management Committee and appropriate action is taken.

55-1-2) Risk management framework of the Company

The Risk Management Committee is responsible for the overall establishment of the Company's risk management policies that include basic direction of risk management, risk based business strategy, risk limits, risk goal, risk index. Risk limits for each risk and detail implementation for risk management are ruled by the Regulation for the delegation and authorization.

The results of risk monitoring and analysis are regularly reported to the Risk Management Committee with the management plan. Any issues requiring management's attention including performance of insurance risk management are reported to the Risk Management Council.

1) Risk Management Committee

The Risk Management Committee is comprised of one standing director and three outside directors and has overall responsibility for establishing basic directions and major policies of risk management consistent with management strategies and setting appropriate risk limits for the Company.

2) Risk Management Council

The Risk Management Council sets the agenda that will be discussed at the Risk Management Committee, implements strategies established by the Risk Management Committee, sets the limit for each risk factor and prepares suitable solution when risk limit exceeds or may exceed the set limit.

55. Risk management (cont'd)

55-1) General (cont'd)

55-1-2) Risk management framework of the Company (cont'd)

3) Risk Management Team

The Company runs the Risk Management Team and a risk management unit for each risk to support the Risk Management Committee and the Risk Management Council. The Risk Management Team who is independent from the business operation departments plans and sees company level of financial and non-financial risk management by preparing risk management policies, regulations.

Risk Management Support Team, in charge of risk management, performs plan-see functions independent from Sales Department (including non-financial risk management) such as establishing risk management policies and plan, regulations and rules, and setting risk limits. Individual risk management departments perform Do functions and operate in 6 teams.

- Market risk: asset portfolio management team
- Credit risk: investment asset evaluation team/retail credit marketing team
- Interest rate/liquidity risk: finance team
- Insurance risk: insurance risk management support team
- Variable insurance guarantee risk: actuarial team

55-2) Regulatory capital adequacy

55-2-1) Kyobo Life Insurance

1) Risk Based Capital (RBC)

The Company measures, manages and discloses RBC (e.g. Solvency) ratio according to the Regulation on Supervision of Insurance Business to maintain required capital for the solvency margin.

RBC is available capital (e.g. Solvency) divided by required capital (e.g. Solvency Threshold). Available capital represents how capable the Company is in paying the liabilities to policy holders, even in cases of unexpected loss or decline in the value of assets. Required capital is the risk amount of the Company. This ratio indicates insurance company's financial strength and claim payment ability.

Available capital is comprised of capital, capital surplus and retained earnings. Required capital is computed considering insurance, interest rates, credit, market, operational risks and dispersion effect. In order to calculate risk based capital requirements, the computation is distinguished by insurance, interest, credit, market and operational risks considering the risk diversification effect. When the Company sets portfolio strategy, the impact of Risk Based Capital is considered and the internal risk quantity related to insurance, interest, credit, market and operational risks is measured through internal measurement models.

55. Risk management (cont'd)

55-2) Regulatory capital adequacy (cont'd)

55-2-1) Kyobo Life Insurance (cont'd)

The FSS requires the Risk Based Capital to be maintained above 100% based on consolidated financial statements and for cases that do not meet the requirements, corrective actions will be taken so that financial competitiveness can be maintained.

	Solvency Ratio	Remedial action
Improvement recommended	Above 50% and below 100%	- Requires increasing capital - Limits new business entering
Improvement required	Above 0% and below 50%	- Requires executive replacement - Re-organization of subsidiaries
Improvement commanded	Below 0%	- Executives' tasks are halted insurance business is stopped

The Company follows the RBC ratio set by the FSS.

2) Measurement and management

The Company sets the total risk limits and guidance as a part of annual business plan to ensure, even though risks are possible, the risk capital (e.g. solvency margin) is greater than minimum required risk based capital on the standard guidelines promulgated by the Financial Supervisory Service. Risk capital is monitored on a monthly basis to maintain at appropriate level against the amount of total risks of the assets. The Company reviews acceptability of risk capital under the case of abnormally increased risks by measuring sensitivity and conducting scenario method stress test for significant risk factors with supplementing the limitation of Value at Risk base measurement.

55-2-2) Kyobo Securities

1) Net Capital Ratio (NCR)

In order to prevent inevitable risks arising from operating activities and to minimize investors', customers' and other stakeholder's loss in wealth, Kyobo Securities are at their best in managing their capital. The management of capital adequacy is based on net capital ratio enacted by the FSS. Kyobo Securities reports their net capital ratio results to the FSS at the end of every month.

2) Capital management

The main objective of Kyobo Securities' capital management is to maximize each shareholder's value and maintain its competitive credit rating through main operations of Kyobo Securities. To satisfy the externally imposed capital requirements, Kyobo Securities actively carries out capital management. Kyobo Securities restructures capital according to the change in capital structure, changes in market and risks associated with operating activities. Kyobo Securities may maintain or change the capital structure by adjusting the shareholder's amount of dividend, right issue or through capital reduction. Compared with the prior year, Kyobo Securities have not changed any rules or procedures in their objective to manage their capital.

55. Risk management (cont'd)

55-2) Regulatory capital adequacy (cont'd)

55-2-2) Kyobo Securities (cont'd)

3) Regulatory capital status

In order to maintain capital adequacy of financial investment firms, the FSS has decided to regulate the net capital ratio at 150%. For security firms that do not meet this requirement at a certain minimum, the FSS will take certain actions accordingly. The actions are as follows:

- Net capital ratio is above 120% but below 150% : recommendation of improvement
- Net capital ratio is above 100% but below 120%: requirement of improvement
- Net capital ratio is below 100%: commandment of improvement

Kyobo Securities follows Net capital ratio stipulated by the FSS.

55-3) Insurance risk

55-3-1) Overview

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, and actual benefits.

55-3-2) Management of insurance risk

Insurance risk management comprises of acceptance and administration of insurance contracts, calculation and adjustment of premium rate, review and payment of claims, reinsurance and closing accounts. Each insurance component is managed by a department operating for the risk component.

The Risk Management Team and other related departments conduct preemptive risk management when they develop or revise an insurance product. Insurance risk is continuously improved through regularly reviewing experience rate analysis, insurance risk measurement, underwriting and claims inspection process after product selling.

1) Underwriting

The Group reviews and improves the medical underwriting guideline based on the changes of medical environment. The Group reassesses and reinforces underwriting standards through profit and loss analysis over insurance contracts. Consultants are updated with the latest underwriting standards. The Group distributes underwriting manual for consultants to prevent miss-selling. Risk Management Supporting enhances the accuracy of the risk assessment over a subscribed insurance contract. It provides various risk information that are consistent and underwriting that is reasonable.

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-2) Management of insurance risk (cont'd)

2) Risk management through reinsurance

The Group cedes an insurance contract to reinsurer if risks of the contract need to be transferred or diversified to ensure claims payment ability and to maintain financial sustainability of the Group. To achieve the objectives of reinsurance activity, the Group runs reinsurance business efficiently by profit-loss analysis, cedes insurance contracts to reliable reinsurer and observes relevant regulations through the internal control system.

3) Developing insurance product

When an insurance product is developed or revised, the Group prices insurance premium based on the analysis of expected and actual insurance risk difference and sensitivity to the risk factors. The Group also reviews the appropriateness of the premium and the profitability of the products through the historical loss experience analysis. The Group reviews compliance of risk management policy and appropriateness of expected profit-loss based on experience rate as a part of post selling risk management for a high risk product. Policy and underwriting standard of the product would be revised in line with the result of the review to improve insurance risk.

4) Assessment of claims requests and payment

A standard process for accepting requests and claims payment is enacted to regulate the assessment process of claims requests. The Group pays reasonable benefit using insurance risk management system score, assessment process by types of claims and historical insurance loss experience analysis. The Group monitors deficiency of insurance policy through claim assessment process, and based on that, modifies insurance policies and contracts. The claims payment process is continuously improved reflecting the result of insurance event inspection process monitoring, internal audit and customer complaints etc.

55-3-3) Insurance risk amount

Insurance risk of a life insurance company is measured by insurance premium risk. Reserve risk is managed by liability adequacy test as fluctuation of reserve for life insurance product is insignificant and claims are paid within a short period of time.

Insurance premium risk exposure is insurance risk premium for accidents such as death, disease, etc incurred within a year from December 31, 2015 and 2014 for all insurance contracts and the claims are to be paid for the next year.

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-3) Insurance risk amount (cont'd)

The Group's insurance premium risk exposure and insurance premium risk amounts as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015			
	Exposure		Insurance risk amount	
Death	₩	506,639	₩	85,312
Disability		59,933		48,143
Hospitalization		271,135		28,617
Operation, diagnosis		598,322		344,971
Medical expenses		124,132		13,159
Other		50,125		18,927
	₩	1,610,286	₩	539,129
Before applying reinsurance ratio			₩	539,129
Possession ratio				94.66%

	December 31, 2014			
	Exposure		Insurance risk amount	
Death	₩	495,969	₩	83,652
Disability		60,867		48,036
Hospitalization		269,617		29,905
Operation, diagnosis		563,128		345,230
Medical expenses		109,530		10,121
Other		50,638		18,240
	₩	1,549,749	₩	535,184
Before applying reinsurance ratio			₩	535,184
Possession ratio				97.69%

55-3-4) Credit Risk from insurance contracts

1) Overview

Credit risk is the risk of financial loss to the Group due to debtor's bankruptcy or if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the risk amount (the unexpected loss) exceeds the expected loss, and credit risk from insurance contract arising mainly from reinsurer's default risk.

The Group chooses blue chip reinsurance company based on the established standards including major financial indices used to assess the reinsurer for its credit rating, RBC, financial adequacy, ratio of market share etc. The Group regularly monitors if reinsurer's secure operation is maintained to prevent sudden decrease in its credit rating. If the Group finds that transactions with reinsurer are not secure, countermeasures such as contract termination take place.

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-4) Credit Risk from insurance contracts (cont'd)

2) Paid premium for ceded reinsurance based on credit ratings of reinsurer

The Group's ceded reinsurance premium as of December 31, 2015 and 2014 amounted to ₩90,877 million and ₩91,159 million, respectively and all the counter parties have credit rating above AA-.

3) Asset details with reinsurers based on credit ratings

The Group's reinsurance receivables as of December 31, 2015 and 2014 amounted to ₩ 64,732 million, ₩63,878 million, respectively and all the counter parties have credit rating above AA-.

55-3-5) Market risk from insurance contracts

1) Overview

Market risk from insurance contracts is the risk that rises from the changes in market prices such as foreign exchange rates, interest rates and equity prices in certain insurance contract such as unit-linked variable or variable interest rate product that produces additional benefits (Guaranteed Minimum Death Benefit (GMDB), Guaranteed Minimum Annuity Benefit (GMAB) etc.) due to the contract term of providing guarantee amount above the contracted value.

2) Management of minimum guarantee risk of unit-linked variable products

The Group uses two types of risk management approaches for minimum guarantee risk of unit-linked variable products. For the passive management, the Group recognizes option and guarantees liability or reserves certain amount of the capital to cover the expected loss. For more active management, the guarantee risk of unit-linked variable products is measured and limited at the product development stage and static and dynamic hedging method or reinsurance can be used to mitigate the risk.

The Guarantee Risk Management task force team establishes optimal guarantee risk management strategy by continuously monitoring guarantee risk and analyzing effectiveness of the risk management strategy.

3) Liabilities of interest rate linked product for the minimum interest guarantee risk as of December 31, 2015 and 2014 are as follows (Korean won in millions)

	December 31, 2015	December 31, 2014
Below 0%	₩ 98,544	₩ 106,224
Over 0% and below 2%	8,484,478	6,200,500
Over 2% and below 3%	9,746,207	9,922,144
Over 3% and below 4%	8,181,724	7,317,804
Over 4%	1,707,215	1,586,806
	₩ 28,218,168	₩ 25,133,478

55. Risk management (cont'd)

55-3) Insurance risk (cont'd)

55-3-5) Market risk from insurance contracts (cont'd)

The guaranteed minimum interest rate is specified in insurance terms. The Group records the guarantee reserve if the disclosed interest rate is lower than the guaranteed minimum interest rate of the variable products.

4) Minimum guarantee risk of unit-linked variable products

Minimum guarantee risk of unit-linked variable products amount as of December 31, 2015 and 2014 as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
GMAB	₩ 101,377	₩ 94,987
GMDB	208,615	273,112
GLWB	2,403	115
Other	7,741	8,457
	₩ 320,136	₩ 376,671

55-4) Interest rate risk

55-4-1) Overview

Interest rate risk is the risk in decrease of net assets incurred from interest rate fluctuation. It arises from the maturity structure and interest rate differences between interest bearing assets and liabilities.

55-4-2) Measurement and management

1) Measurement

The Company measures interest rate risk with both the standard model and the internal model enacted by the Financial Supervisory Service. Interest risk calculation formula was as follows:

Interest rate risk = | interest bearing liabilities' exposure X liabilities' duration – interest bearing assets' exposure X asset duration | X interest rate variance + Negative interest spread risk
Internal model = (interest bearing liabilities' exposure X liabilities' duration - interest bearing assets' exposure X asset duration) X interest rate variance

Duration: Cash flow weighted average maturity or average recovery period of investment amount or price sensitivity to the change of interest.
Risk amount of minimum interest: fixed interest liabilities X 2.83% + other liabilities X (1.41%~2.83%)

55. Risk management (cont'd)

55-4) Interest rate risk (cont'd)

55-4-2) Measurement and management (cont'd)

Interest risk amount by Standard model of Financial Supervisory Service RBC system is calculated by multiplying exposure of interest bearing asset and liability by duration. Whereas, the internal model calculates interest risk amount using effective duration calculated from the cash flow considered by the attributes of interest bearing assets and liabilities.

The confidence level of interest risk in internal model applies 99%(the probability of once occurring once in 100 years) as the same with the interest risk in standard model.

2) Management

Within an Asset Liability Management Framework, the Company is seeking to reduce the duration gap in the mid and long term view by increasing interest bearing asset duration or asset amount or, decreasing liability duration. The Company sets the interest rate risk limit amount considering equity capital, solvency margin and risk management polices etc. and emergency situation scenario test assuming the unexpected abnormal economic crisis is also conducted on a regular basis.

3) Interest risk exposure

Exposure to the interest bearing asset and liabilities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
	Exposure	Sensitivity	Exposure	Sensitivity
Interest bearing asset:				
Due from banks	₩ 1,337,606	₩ 2,404,725	₩ 848,209	₩ 753,411
Investment securities (*)	42,623,741	293,789,036	38,145,902	239,501,042
Loans	16,278,592	66,951,251	15,737,415	59,509,128
	60,239,939	363,145,012	54,731,526	299,763,581
Interest bearing liabilities:				
Fixed interest rate contract	27,666,399	272,708,077	27,092,697	265,001,361
Interest rate linked contract	28,218,173	99,402,650	25,133,069	80,685,392
	₩ 55,884,572	₩ 372,110,727	₩ 52,225,766	₩ 345,686,753
Negative interest spread risk		₩ 375,106		₩ 197,315
Interest risk amount		1,286,169		1,205,279
Interest various factor		1.85%		1.85%

(*) Including amounts of debt securities and bond type beneficiary certificate in available-for-sale financial instruments as well as held-to-maturity financial instruments.

55. Risk management (cont'd)

55-5) Credit risk

55-5-1) Overview

Credit risk is the risk of financial loss to the Group due to debtor's bankruptcy or if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the risk amount (the unexpected loss) exceeds the expected loss.

54-5-2) Measurement and management

The Group measures credit risk using the standard model and the internal model. The standard model calculates credit risk amount according to the forth clause of Article 7-2 of the Regulation on Supervision of Insurance Business.

The internal model calculates credit risk amount using VaR calculated from the Group's Credit Risk Management System. For measuring Credit VaR, the Group uses mark-to-market method for corporate exposure and Default Mode (DM) for consumer exposure and it also consider correlation and diversification effects when calculating credit risk amount.

The Group measures credit risk using the standard model and the internal model. The standard model calculates credit risk amount according to the The Group sets credit exposure limit for each borrower based on its industry and credit rating. The conformity of this limit is reviewed every month. After the loan initiation, credit review for each significant borrower is performed regularly. The Group revises exposure limit, decreases credit line, collects the loan or increases collateral if there is any symptom of credit rating risk.

Appropriate steps, such as collection, are taken when the borrower's credit rating becomes speculative. The Group establishes action plan by reviewing the financial structure and payment ability of the currently or potentially problematic borrowers through designated units (e.g. Investment Asset Analysis Team, Loan Management Team, A&D etc).

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-3) Maximum exposure to credit risk

The Group's maximum exposure to credit risk as of December 31, 2015 and 2014 is as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Cash and due from banks (*1)	₩	1,727,081	₩	1,442,187
Financial assets designated at fair value through profit or loss (*2)		346,939		312,313
Trading assets (*2)		3,382,770		3,313,626
Available-for-sale financial assets (*2)		16,492,836		16,329,113
Held-to-maturity financial assets		22,860,268		19,283,195
Loans (*3)		16,828,069		16,372,063
Other receivables (*3)		1,646,405		1,317,906
Derivative assets		190,887		179,091
	₩	63,475,255	₩	58,549,494

(*1) The maximum exposure amounts for cash and due from banks in the statement of financial position exclude cash on hand without credit risk.
(*2) Financial instruments of equity securities in financial assets designated at fair value through profit or loss, trading assets, and available-for-sale financial instruments in the statement of financial position are excluded.
(*3) The maximum exposure amounts for loans and other receivables are presented as net of allowance.

55-5-4) Impairment information of loans

Past due or impairment information for loan, as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015		December 31, 2014	
Neither past due nor impaired	₩	16,689,673	₩	16,071,429
Past due but not impaired		121,653		280,550
Impaired		86,784		93,485
		16,898,110		16,445,464
Less : allowance		(90,753)		(84,416)
	₩	16,807,357	₩	16,361,048

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-5) Credit soundness of loans neither past due nor impaired

Credit quality of loans that are neither past due nor impaired as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015					
	Policy loans	Loans secured by investment securities	Loans secured by real estate	Call loans, Credit loans and Guarantee loans	Other loans	Total
Risk-free	₩ 319	₩ -	₩ -	₩ 3,169,251	₩ -	₩ 3,169,570
AAA	-	-	306,742	740,245	29,125	1,076,112
AA+ ~AA-	-	-	-	201,383	11,900	213,283
A+ ~BBB-	-	-	-	245,097	19,948	265,045
Unrated	-	-	721,932	747,153	2,421	1,471,506
Other	5,818,486	263,335	3,149,578	1,171,688	91,070	10,494,157
	5,818,805	263,335	4,178,252	6,274,817	154,464	16,689,673
Less : allowance	-	-	(1,541)	(14,249)	(27)	(15,817)
	₩ 5,818,805	₩ 263,335	₩ 4,176,711	₩ 6,260,568	₩ 154,437	₩ 16,673,856
Mitigation of credit risk due to collateral	₩ 5,818,486	₩ -	₩ 3,890,430	₩ 573,002	₩ 15,862	₩ 10,297,780

	December 31, 2014					
	Policy loans	Loans secured by investment securities	Loans secured by real estate	Call loans, Credit loans and Guarantee loans	Other loans	Total
Risk-free	₩ 38	₩ -	₩ -	₩ 3,297,502	₩ -	₩ 3,297,540
AAA	-	-	294,908	625,065	6,157	926,130
AA+ ~AA-	-	-	-	504,368	-	504,368
A+ ~BBB-	-	-	-	134,262	-	134,262
Unrated	-	-	681,364	582,295	-	1,263,659
Other	5,907,273	217,945	2,685,869	1,078,621	55,762	9,945,470
	5,907,311	217,945	3,662,141	6,222,113	61,919	16,071,429
Less : allowance	-	-	(1,907)	(14,897)	-	(16,804)
	₩ 5,907,311	₩ 217,945	₩ 3,660,234	₩ 6,207,216	₩ 61,919	₩ 16,054,625
Mitigation of credit risk due to collateral	₩ 5,907,273	₩ -	₩ 3,427,901	₩ 476,012	₩ 17,818	₩ 9,829,004

Credit rating above is classified by Risk Based Capital Manual enacted by the FSS. Retail loan included in other is classified by internal credit rating which is rated by Behavior Scoring System (BSS).

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-5) Credit soundness of loans neither past due nor impaired (cont'd)

Classification of retail loan as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015	December 31, 2014
Gilts (Grade 1~4)	₩ 2,082,274	₩ 2,005,098
Normal (Grade 5~8)	1,452,266	1,281,737
Disadvantage (Grade 9~10)	16,749	23,027
Other (i.e. risk free, etc)	820,319	367,105
	₩ 4,371,608	₩ 3,676,967

55-5-6) Aging analysis of loans that were past due but not impaired

Aging analysis of loans that were past due but not impaired as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015				
	Loans secured by real estate	Unsecured loans	Loans secured by third party guarantees	Other loans	Total
Less than:					
30 days	₩ 57,704	₩ 39,185	₩ 17,742	₩ 20	₩ 114,651
31~60 days	571	2,183	617	-	3,371
61~90 days	628	2,269	734	-	3,631
More than 90 days	-	-	-	-	-
	58,903	43,637	19,093	20	121,653
Less:allowance	(249)	(3,196)	(19)	-	(3,464)
	₩ 58,654	₩ 40,440	₩ 19,074	₩ 20	₩ 118,189
Mitigation of credit risk due to collateral	₩ 58,551	₩ -	₩ 19,093	₩ 20	₩ 77,664

	December 31, 2014				
	Loans secured by real estate	Unsecured loans	Loans secured by third party guarantees	Other loans	Total
Less than:					
30 days	₩ 195,176	₩ 57,783	₩ 15,907	₩ 60	₩ 268,926
31~60 days	3,235	2,515	1,700	52	7,502
61~90 days	733	2,043	787	-	3,563
More than 90 days	559	-	-	-	559
	199,703	62,341	18,394	112	280,550
Less: allowance	(516)	(3,956)	(20)	-	(4,492)
	₩ 199,187	₩ 58,385	₩ 18,374	₩ 112	₩ 276,058
Mitigation of credit risk due to collateral	₩ 198,793	₩ -	₩ 18,394	₩ 113	₩ 217,300

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-7) Impaired loans

Impaired loans as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015								
	Individual assessing			Collective assessing					
	Loans secured by real estate	Un-secured loans	Other loans	Policy loans	Loans secured by real estate	Unsecured loans	Loans secured by third party guarantees	Other loans	Total
Impaired	₩ -	₩ 607	₩ 62,727	₩ 454	₩ 5,062	₩ 14,556	₩ 3,377	₩ 1	₩ 86,784
Less allowance	-	(607)	(57,905)	(454)	(930)	(11,376)	(201)	-	(71,473)
	₩ -	₩ -	₩ 4,822	₩ -	₩ 4,132	₩ 3,180	₩ 3,176	₩ 1	₩ 15,311
Mitigation of credit risk due to collateral	₩ -	₩ -	₩ -	₩ -	₩ 5,062	₩ -	₩ 3,377	₩ 1	₩ 8,440

	December 31, 2014								
	Individual assessing			Collective assessing					
	Loans secured by real estate	Un-secured loans	Other loans	Policy loans	Loans secured by real estate	Unsecured loans	Loans secured by third party guarantees	Other loans	Total
Impaired	₩ 59,460	₩ 921	₩ 4,991	₩ 271	₩ 9,248	₩ 15,492	₩ 3,100	₩ 2	₩ 93,485
Less allowance	(42,453)	(719)	(4,919)	(271)	(1,776)	(12,774)	(206)	(1)	(63,119)
	₩ 17,007	₩ 202	₩ 72	₩ -	₩ 7,472	₩ 2,718	₩ 2,894	₩ 1	₩ 30,366
Mitigation of credit risk due to collateral	₩ 111	₩ -	₩ -	₩ -	₩ 9,218	₩ -	₩ 3,100	₩ 2	₩ 12,431

55-5-8) Risk concentration by industry sector of loans

An analysis of concentration by industry sector of loans as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015						
	Real estate and lease	Whole sale, Retail, Transportation & Lodging	Finance and insurance	Electricity, Gas, Stream and Water supply	Construction	Other	Total
Call loans	₩ -	₩ -	₩ -	₩ -	₩ -	₩ 1,100	₩ 1,100
Policy loans	-	-	-	-	-	5,819,259	5,819,259
Loans secured by investment securities	-	-	-	-	-	263,335	263,335
Loans secured by real estate	233,525	2,487	463,147	-	-	3,543,058	4,242,217
Unsecured loans	1,175,370	1,138,291	180,995	715,257	216,785	2,404,909	5,831,607
Loans secured by third party guarantees	28,281	-	-	-	49,685	519,104	597,070
Other loans	21,808	-	60,125	-	27,875	33,713	143,521
	₩ 1,458,984	₩ 1,140,778	₩ 704,267	₩ 715,257	₩ 294,345	₩12,584,478	₩16,898,109

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-8) Risk concentration by industry sector of loans (cont'd)

	December 31, 2014						
	Real estate and lease	Whole sale, Retail, Transportation & Lodging	Finance and insurance	Electricity, Gas, Stream and Water supply	Construction	Other	Total
Call loans	₩ -	₩ -	₩ 58,000	₩ -	₩ -	₩ -	₩ 58,000
Policy loans	-	-	-	-	-	5,907,582	5,907,582
Loans secured by investment securities	-	-	-	-	-	217,945	217,945
Loans secured by real estate	281,180	5,196	368,040	-	25	3,167,703	3,822,144
Unsecured loans	1,412,561	1,076,565	280,637	521,885	162,910	2,346,435	5,800,993
Loans secured by third party guarantees	-	-	-	-	-	498,362	498,362
Other loans	3,093	-	61,209	-	12,212	63,924	140,438
	₩ 1,696,834	₩ 1,081,761	₩ 767,886	₩ 521,885	₩ 175,147	₩ 12,201,951	₩ 16,445,464

55-5-9) Credit rating of debt securities

Credit rating of debt securities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015						
	Government and public bonds	Bonds issued by financial institutions and government agencies	Financial bonds	Corporate bonds	Overseas securities	Others	Total
Risk-free	₩ 16,503,560	₩ 5,897,479	₩ -	₩ 30,376	₩ 1,660,554	₩ -	₩ 24,091,969
AAA	-	6,441,182	621,649	2,218,120	2,870,291	234,070	12,385,312
AA+ ~AA-	8	277,268	1,373,721	1,223,776	2,395,111	68,473	5,338,357
A+ ~BBB-	-	-	29,998	264,659	885,873	45,555	1,226,085
BBB- and below	-	-	-	27,536	1	9,557	37,094
Unrated	-	-	-	509	-	3,487	3,996
	₩ 16,503,568	₩ 12,615,929	₩ 2,025,368	₩ 3,764,976	₩ 7,811,830	₩ 361,142	₩ 43,082,813

	December 31, 2014						
	Government and public bonds	Bonds issued by financial institutions and government agencies	Financial bonds	Corporate bonds	Overseas securities	Others	Total
Risk-free	₩ 15,607,673	₩ 6,013,206	₩ -	₩ -	₩ 910,703	₩ -	₩ 22,531,581
AAA	9	6,827,901	541,088	2,107,276	690,108	119,854	10,286,236
AA+ ~AA-	-	165,716	1,098,608	1,580,800	2,318,917	243,166	5,407,206
A+ ~BBB-	-	-	81,521	163,117	536,956	127,702	909,295
BBB- and below	-	-	-	-	1	-	1
Unrated	1	-	-	100,452	3,475	-	103,928
	₩ 15,607,682	₩ 13,006,823	₩ 1,721,217	₩ 3,951,645	₩ 4,460,160	₩ 490,721	₩ 39,238,247

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-10) Risk concentration by industry sector of debt securities

An analysis of risk concentration by industry sector of debt securities as of December 31, 2015 and 2014 are as follows (Korean won in millions):

	December 31, 2015						
	Government owned entity	Finance and insurance	Electricity, gas, stream and water supply	Construction	Real estate and lease	Other	Total
Financial assets at fair value through profit or loss	₩ 438,568	₩ 2,542,390	₩ 144,658	₩ 3,487	₩ -	₩ 600,606	₩ 3,729,709
Available-for-sale financial assets	10,911,325	707,248	1,639,885	890,291	10,142	2,333,945	16,492,836
Held-to-maturity financial assets	14,790,671	1,815,372	1,746,365	1,438,574	-	3,069,286	22,860,268
	₩ 26,140,564	₩ 5,065,010	₩ 3,530,908	₩ 2,332,352	₩ 10,142	₩ 6,003,837	₩ 43,082,813

	December 31, 2014					
	Government owned entity	Finance and insurance	Electricity, gas, stream and water supply	Construction	Other	Total
Financial assets at fair value through profit or loss	₩ 1,335,509	₩ 1,708,808	₩ 71,501	₩ -	₩ 510,121	₩ 3,625,939
Available-for-sale financial assets	10,636,992	645,916	1,719,783	790,253	2,536,170	16,329,113
Held-to-maturity financial assets	13,816,156	725,763	1,678,505	1,269,539	1,793,232	19,283,195
	₩ 25,788,657	₩ 3,080,487	₩ 3,469,789	₩ 2,059,792	₩ 4,839,523	₩ 39,238,247

55-5-11) Risk concentration by geographic location of debt securities

An analysis of concentration by geographic location of debt securities as of December 31, 2015 and 2014 is as follows (Korean won in millions):

	December 31, 2015						
	Korea	USA	U.K.	France	China	Other	Total
Financial assets at fair value through profit or loss	₩ 3,706,806	₩ -	₩ 22,903	₩ -	₩ -	₩ -	₩ 3,729,709
Available-for-sale financial assets	15,069,944	784,273	186,513	9,308	19,375	423,423	16,492,836
Held-to-maturity financial assets	19,741,821	2,140,255	157,493	33,423	-	787,276	22,860,268
	₩ 38,518,571	₩ 2,924,528	₩ 366,909	₩ 42,731	₩ 19,375	₩ 1,210,699	₩ 43,082,813

55. Risk management (cont'd)

55-5) Credit risk (cont'd)

55-5-11) Risk concentration by geographic location of debt securities (cont'd)

	December 31, 2014					
	Korea	USA	U.K.	France	Other	Total
Financial assets at fair value through profit or loss	₩ 3,604,431	₩ -	₩ 21,508	₩ -	₩ -	₩ 3,625,939
Available-for-sale financial assets	14,990,340	806,803	168,618	7,247	356,105	16,329,113
Held-to-maturity financial assets	17,797,505	846,737	133,296	15,898	489,759	19,283,195
	₩ 36,392,276	₩ 1,653,540	₩ 323,422	₩ 23,145	₩ 845,864	₩ 39,238,247

55-6) Market risk

55-6-1) Overview

Market risk is company incurring loss due to decrease in asset value caused by changes in market prices such as foreign exchange rates, interest rates and stock prices.

55-6-2) Measurement and management

The Group measures market risk using the standard model and the internal model. The standard model evaluates the market risk according to the fifth clause of Article 7-2 of the Regulation on Supervision of Insurance Business. One-year 99% VaR is utilized for the internal model. The Group mainly uses the delta-normal method that assumes normal distribution return rate and linear valuation. The Group also measures daily VaR based on simulation method as an assistance method.

Other than VaR, the sensitivity indices, for instance, the duration and the beta are used as a supplementary market risk measurement. In order to supplement VaR measurement method, loss measurement is conducted under a variety of scenarios covering severe market condition such as IMF or financial economic crisis in 2008. The Group regularly reviews the impact of loss on profit or loss before dividends and RBC ratio and establishes countermeasure plan. In addition, the Group maintains adequate level of risk in holding equities by managing investment limit and foreign exchange translation hedge of asset group that influences market risk.

55. Risk management (cont'd)

55-6) Market risk (cont'd)

55-6-3) Sensitivity analysis of risk factors such as interest rate

Sensitivity analysis of the effect of foreign exchange rate, interest rate and stock fluctuation on income and capital for the years ended December 31, 2015 and 2014 is as follow (Korean won in millions):

	2015				
	Risk factor	Income effect (*1)		Capital effect (*2)	
Foreign exchange	₩100 increase KRW/USD FX Rate	₩	5,019	₩	(7,228)
	₩100 decrease KRW/USD FX Rate		(5,019)		7,228
Interest rate	100bp increase		(2,846)		6,940
	100bp decrease		2,846		(6,940)
Stock price	10% increase equity index		-		-
	10% increase equity index		-		-

(*1) Net income before tax
(*2) Other comprehensive income is calculated without considering policyholders' equity adjustment and tax effect.

	2014				
	Risk factor	Income effect (*1)		Capital effect (*2)	
Foreign exchange	₩100 increase KRW/USD FX Rate	₩	3,974	₩	(12,636)
	₩100 decrease KRW/USD FX Rate		(3,974)		12,636
Interest rate	100bp increase		(2,211)		(613,688)
	100bp decrease		2,216		672,730
Stock price	10% increase equity index		-		119,642
	10% increase equity index		-		(119,642)

(*1) Net income before tax
(*2) Other comprehensive income is calculated without considering policyholders' equity adjustment and tax effect.

55. Risk management (cont'd)

55-6) Market risk (cont'd)

55-6-4) Market risk analysis of Kyobo Securities

An analysis of VaR for trading portfolio held by Kyobo Securities for the periods ended December 31, 2015 and 2014 are as follows (Korean won in millions):

	2015							
	Average		Maximum		Minimum		December 31, 2015	
Equities	₩	1,986	₩	3,521	₩	894	₩	1,807
Interest rate		563		1,192		288		429
Foreign exchange		391		936		6		56
Portfolio diversification		-		-		-		132
Total VaR	₩	1,940	₩	2,818	₩	1,149	₩	2,160

	2014							
	Average		Maximum		Minimum		December 31, 2014	
Equities	₩	1,634	₩	2,726	₩	991	₩	1,689
Interest rate		551		1,038		291		291
Foreign exchange		189		523		9		413
Portfolio diversification		-		-		-		1,145
Total VaR	₩	1,572	₩	3,047	₩	902	₩	1,247

55-7) Liquidity risk

55-7-1) Overview

Liquidity risk is the risk of loss that the Company is unable to meet its payment obligations arising from financial liabilities as they fall due or raise funds with high interest rates and unfavorable disposal of securities to solve the shortage of funds or facing inability to pay due to unexpected cash flows.

55-7-2) Recognition and management

1) Management index of liquidity risk

Liquidity risk is measured by liquidity gap and liquidity ratio. Liquidity ratio is the percentage of the Company's assets transferrable to cash with the within 3 months maturities against claims paid for the past three months. This ratio measures the Company's appropriateness of its current asset volume. The Company maintains its liquidity ratio around 250% for the past 1 year which is grade 1 rating performed by Financial Supervisory Services.

55. Risk management (cont'd)

55-7) Liquidity risk (cont'd)

55-7-2) Recognition and management (cont'd)

Liquidity gap is the index representing shortage or oversupply of the cash flow within a month, a quarter, half a year, and more than a year. The Company calculates liquidity gap on a monthly or weekly basis and manages supply and demand schedule of the cash flow to ensure this index stays in positive.

2) Management

- Regular monitoring of funds supply and demand schedule.
  All cash flow information from financial assets and liability and insurance liability is gathered for liquidity risk management on a monthly or weekly basis to prepare for unforeseen cash flow surplus and deficit. And for the analysis of long-term cash flow projection of insurance liability, the Company utilizes ALM system.
- Maintaining target liquidity fund level
  The Company keeps a certain amount of the liquidity fund to prepare for unexpected liquidity deficit. The level of liquidity fund is revised dynamically in line with trend of the financial market status and the volatility of claim payments.

- Liquidity Contingency Plan
  The Company sets a contingency plan to appropriately respond to emergency situation such as the massive claim of the cash payment in an economic crisis.

  Liquidity contingency plan defines an action plan regarding the priorities of funding, roles & responsibilities of each department and the form of the emergency committee. Simulated liquidity exercise under various possible scenarios is performed regularly so as to investigate and improve its contingency plans.

55. Risk management (cont'd)

55-7) Liquidity risk (cont'd)

55-7-3) Liquidity risk exposure (Korean won in millions):

	December 31, 2015					
	Less than 3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Insurance contracts and financial liabilities:						
Liabilities under insurance contracts	₩ 229,247	₩ 207,849	₩ 430,182	₩ 3,319,830	₩ 53,459,527	₩ 57,646,635
Financial liabilities designated at fair value through profit or loss(*1)	286,464	75,947	132,191	701,049	417,104	1,612,755
Trading liabilities	19,407	-	-	22,644	168,609	210,660
Derivative Liabilities(*1)	56,559	55,256	269,872	378,547	24,938	785,172
Borrowings	1,900,800	2,306	20,402	196,451	-	2,119,959
Other financial liabilities	1,158,423	8,322	36,214	168,064	4,362	1,375,385
	₩ 3,650,960	₩ 349,680	₩ 888,861	₩ 4,786,585	₩ 54,074,540	₩ 63,750,566
Items outside of book(*2)						
ABCP purchase commitments	₩ -	₩ 10,000,000	₩ 106,500,000	₩ 455,300,000	₩ 23,000,000	₩ 594,800,000
CP gross underwriting commitments	-	-	150,000,000	-	-	150,000,000
Loans, purchase commitments etc	-	112,000,000	134,000,000	314,900,000	-	560,900,000
	₩ -	₩ 122,000,000	₩ 390,500,000	₩ 770,200,000	₩ 23,000,000	₩ 1,305,700,000

	December 31, 2014					
	Less than 3 months	3~6 months	6 months~ 1 year	1~5 years	More than 5 years	Total
Insurance contracts and financial liabilities:						
Liabilities under insurance contracts	₩ 211,979	₩ 199,867	₩ 456,978	₩ 2,892,748	₩ 49,835,455	₩ 53,597,026
Financial liabilities designated at fair value through profit or loss	163,344	37,041	144,676	1,316,782	19,273	1,681,116
Trading liabilities	44,128	-	-	47,517	197,356	289,001
Derivative Liabilities						
Borrowings	40,064	41,114	263,840	197,225	7,859	550,101
Other financial liabilities	2,064,248	-	-	140,000	30,200	2,234,448
Derivative Liabilities	881,152	4,952	40,982	179,851	4,544	1,111,481
	₩ 3,404,915	₩ 282,974	₩ 906,476	₩ 4,774,123	₩ 50,094,687	₩ 59,463,173
Items outside of book(*2)						
ABCP purchase commitments	₩ -	₩ -	₩ 108,400,000	₩ 478,300,000	₩ -	₩ 586,700,000
CP gross underwriting commitments	-	-	30,000,000	150,000,000	-	180,000,000
Loans, purchase commitments etc	135,000,000	20,000,000	102,700,000	237,000,000	-	494,700,000
	₩ 135,000,000	₩ 20,000,000	₩ 241,100,000	₩ 865,300,000	₩ -	₩ 1,261,400,000

(*1) Adjustments to profit or loss on transaction date and credit risk adjustments are excluded.

55. Risk management (cont'd)

55-7) Liquidity risk (cont'd)

55-7-3) Liquidity risk exposure (Korean won in millions) (cont'd):

(*2) As described in Note 51-4, the purchase commitment is the maximum amount that the consolidated entity may pay in the future by the contract. As of December 31, 2015, the consolidated entity expects that actual payment will be less than the commitment amount in consideration of past experiences and characteristics of commitment, and it is difficult to reasonably estimate the timing, amounts, and feasibility of actual payment.

56. Interests in unconsolidated structured entities

56-1) The nature, purposes and activities of the unconsolidated structured entities which the Group had interest in as of December 31, 2015, and how these structured entities are financed were summarized as follows:

Characteristics	Purposes	Activities	Financing methods
Asset securitization	(1) Encashment by transferring securitized assets (2) Investment fee collection by providing credit offering and ABCP purchase commitments to SPC	(1) Carrying out a plan to securitize assets (2) Taking over and collecting securitized assets (3) Issuing and redeeming ABS and ABCP	(1) Issuance of ABS and ABCP
Project financing	(1) Project financing loans for social overhead capital(SOC) and real estate (2) Lending loans to shipbuilding/airplane SPC	(1) Constructing social overhead capital and real estate (2) Manufacturing and purchasing shipbuilding/airplanes	(1) Entering into loan commitments, credit offering and investment commitments (with credit line)
Investment fund	(1) Investment in beneficiary certificates (2) Investment in PEF and cooperatives	(1) Management and operation of fund assets (2) Payment of fund management fees and sharing of profits from asset management	(1) Sales of beneficiary certificates (2) Investment by general managers and limited liability partners

55. Risk management (cont'd)

56. Interests in unconsolidated structured entities (cont'd)

56-2) Total assets of the unconsolidated structured entities, carrying value of equity and maximum exposure to loss related to the Group's interests in unconsolidated structured entities as of December 31, 2015 is as follows (Korean won in millions):

Type	Asset-backed securitization	Project financing	Investment fund	Total
Total assets of the unconsolidated structured entities	₩ 22,095,926	₩ 54,288,065	₩ 46,795,647	₩ 123,179,638
Carrying value of assets:				
Loans	216,525	4,343,705	1,250	4,561,480
Trading assets	-	-	511,053	511,053
Available-for-sale financial assets	1,084,851	3,812,611	1,543,747	6,441,209
Held-to-maturity financial assets	994,596	-	-	994,596
Other assets	5,426	18,092	7,628	31,146
	₩ 2,301,398	₩ 8,174,408	₩ 2,063,678	₩ 12,539,484
Maximum exposure to loss (*)	₩ 3,706,808	₩ 10,098,926	₩ 2,069,799	₩ 15,875,533
Deduction method of maximum exposure	Purchase commitment Credit offering	Investment commitment Loan commitment	Loan commitment	

(*) The maximum amounts exposed to losses included investment assets recognized in the consolidated financial statements.

56-3) There was no financial and any other support without contractual obligation that the Group provided to the consolidated and unconsolidated structured entities, as of December 31, 2015.

Independent Auditors' Review Report

The Board of Directors and Shareholders
Kyobo Life Insurance Co., Ltd.

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of Kyobo Life Insurance Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated interim statement of financial position as of March 31, 2017, the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting*, 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.

Auditors' review responsibility

Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our reviews. We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements 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 auditing standards generally accepted in the Republic of Korea 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 reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

Other matters

The condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2016 were reviewed by other auditors whose report thereon dated May 17, 2016, expressed that nothing came to their attention that caused them to believe that the accompanying condensed consolidated interim financial information as of March 31, 2016 was not prepared, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

The consolidated statement of financial position of the Group as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors, whose report thereon dated March 2, 2017, expressed an unqualified opinion. The accompanying statement of financial position of the Group as of December 31, 2016, presented for comparative purposes, is not different from that audited by other auditors in all material respects.

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
May 12, 2017

This report is effective as of May 12, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of financial position
As of the March 31, 2017 and December 31, 2016

(Unaudited)

(In won)	***Note***		**2017**	**2016**
Assets				
Cash and due from banks	4,12,13	₩	1,651,793,804,057	1,377,440,371,422
Financial assets designated at fair value through profit or loss	5,12,13		235,042,808,886	335,927,813,961
Trading assets	6,12,13		4,047,270,206,061	3,950,518,105,913
Derivative assets	12,13,30		581,218,984,500	241,777,089,821
Available-for-sale financial assets	7,12,13		20,988,309,497,672	21,137,969,354,728
Held-to-maturity financial assets	8,12,13		26,978,247,049,179	27,187,549,137,649
Loans	9,12,13		18,308,256,057,888	18,463,417,988,115
Other receivables	10,12,13		1,875,449,730,870	1,695,931,680,281
Investments in associates	11		80,769,619,828	90,287,153,585
Investment property	14		1,128,663,796,859	1,135,855,058,326
Property and equipment	15		1,343,732,583,101	1,345,831,098,712
Intangible assets	16		53,033,020,343	52,460,861,858
Deferred acquisition costs	17		1,742,887,405,971	1,786,875,730,346
Current tax assets	48		38,318,089,084	57,651,877,788
Deferred tax assets	48		5,791,121,749	5,061,871,053
Other assets	18,34		201,837,333,495	146,305,222,824
Non-current assets held for sale	19		4,954,179,801	-
Separate account assets	31		18,348,802,321,831	17,673,470,884,070
Total assets		₩	97,614,377,611,175	96,684,331,300,452
Liabilities				
Liability under insurance contracts	20,22	₩	64,479,492,879,242	63,667,528,908,681
Policyholders' equity adjustment	21		449,257,450,274	463,704,818,833
Financial liabilities designated at fair value through profit or loss	12,13,23		1,667,597,667,750	1,503,863,841,124
Trading liabilities	12,13,24		535,645,394,430	427,848,464,145
Derivative liabilities	12,13,30		397,984,256,612	1,117,703,455,596
Borrowings	12,13,25		1,372,256,454,985	1,451,074,947,637
Other financial liabilities	12,13,26		1,443,310,436,193	1,412,400,835,925
Provisions	27		19,146,378,203	18,869,563,698
Defined benefit obligation	28		44,374,184,991	25,930,042,303
Current tax liabilities	48		2,255,761,329	1,935,679,959
Deferred tax liabilities	48		386,632,075,620	350,447,622,011
Other liabilities	29		312,909,640,061	251,973,802,757
Separate account liabilities	31		18,527,042,715,084	18,128,508,889,402
Total liabilities			89,637,905,294,774	88,821,790,872,071
Equity				
Capital stock	32		102,500,000,000	102,500,000,000
Capital surplus	32		435,733,745,962	435,744,066,403
Capital adjustments	32		(15,440,540,647)	(16,388,490,879)
Accumulated other comprehensive income	32		1,018,484,926,080	1,014,849,636,402
Retained earnings	32		6,065,855,334,482	5,961,614,120,347
Equity attributable to owners of the Controlling Company	32		7,607,133,465,877	7,498,319,332,273
Non-controlling interests	32		369,338,850,524	364,221,096,108
Total equity			7,976,472,316,401	7,862,540,428,381
Total equity and liabilities		₩	97,614,377,611,175	96,684,331,300,452

See accompanying notes to the condensed consolidated interim financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of comprehensive income
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)	***Note***		**2017**	**2016**
Operating revenues				
Premium income	33	₩	1,955,662,552,938	2,048,858,061,681
Reinsurance income	34		24,945,661,484	22,599,794,751
Interest income	35		635,538,113,866	657,353,723,761
Gain on valuation and disposal of financial instruments	36		1,329,526,072,906	545,353,303,376
Gain on foreign currency transaction	46		79,890,154,371	54,435,131,149
Fees and commission income	37		50,462,629,177	53,658,440,136
Dividend income	38		115,318,077,801	104,531,399,469
Rental income			23,193,461,658	23,761,534,520
Separate account commissions earned			206,685,121,902	211,493,321,386
Separate account income	31		58,954,900,062	42,381,183,841
Other operating income	39		189,698,668,280	183,021,751,175
			4,669,875,414,445	3,947,447,645,245
Operating expenses				
Provision for liabilities under insurance contracts			787,019,314,665	987,572,025,377
Insurance claims paid	40		1,404,344,244,304	1,301,823,085,228
Reinsurance premium expenses	34		25,702,584,100	23,134,151,703
Insurance operating expenses	41		196,661,591,894	207,877,325,824
Amortization of deferred acquisition costs	17		201,773,026,944	220,119,056,705
Investment administrative expenses	42		23,650,526,484	23,247,170,205
Interest expenses	43		25,898,809,373	44,694,224,725
Loss on valuation and disposal of financial instruments	44		301,532,130,792	300,701,582,353
Loss on foreign currency transaction	46		1,076,777,064,890	265,764,779,964
Separate account commissions paid			6,130,985,506	8,203,252,792
Separate account expenses	31		58,954,900,062	42,381,183,841
Other operating expenses	45		261,231,817,466	243,740,754,891
			4,369,676,996,480	3,669,258,593,608
Operating income			300,198,417,965	278,189,051,637
Non-operating income	47		11,753,096,941	16,473,962,019
Non-operating expenses	47		63,866,287,399	7,677,096,152
Non-operating profit			(52,113,190,458)	8,796,865,867
Net income before income tax expenses			248,085,227,507	286,985,917,504
Income tax expenses	48		58,434,787,640	67,592,965,391
Net income for the period		₩	189,650,439,867	219,392,952,113

See accompanying notes to the condensed consolidated interim financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of comprehensive income
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)	***Note***		**2017**	**2016**
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Gain (loss) on valuation of available-for-sale financial assets		₩	(1,331,012,647)	89,056,732,548
Loss on valuation of held-to-maturity financial assets			(1,805,377,815)	(1,356,912,923)
Gain (loss) on valuation of investments in associates			669,764,472	(27,795,622)
Loss on valuation of derivative instruments			(1,020,552,070)	(7,288,786,390)
Other comprehensive gain in separate accounts			5,154,727,591	12,512,077,188
Foreign currency translation adjustments for foreign operations			(2,927,222,115)	(856,133,423)
			(1,259,672,584)	92,039,181,378
Items that will not be reclassified to profit or loss:				
Gain on revaluation of property and equipment			3,942,212,748	4,140,544,729
Remeasurement loss related to defined benefit liabilities			(551,332,039)	(221,562,169)
			3,390,880,709	3,918,982,560
Total comprehensive income for the period		₩	191,781,647,992	315,351,116,051
Profit for the period attributable to:				
Controlling interests		₩	181,167,633,306	209,404,810,475
Non-controlling interests			8,482,806,561	9,988,141,638
		₩	189,650,439,867	219,392,952,113
Total comprehensive income attributable to:				
Controlling interests		₩	184,802,922,984	305,557,820,137
Non-controlling interests			6,978,725,008	9,793,295,914
		₩	191,781,647,992	315,351,116,051
Earnings per share				
Basic and diluted earnings per share	52	₩	8,837	10,215

See accompanying notes to the condensed consolidated interim financial statements

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of changes in equity
For the three-month period ended March 31, 2016

(Unaudited)

(In won)	Attributable to shareholder of the parent company							
	Capital stock	**Capital surplus**	**Capital adjustments**	**Accumulated other comprehensive income**	**Retained earnings**	**Subtotal**	**Non -controlling interests**	**Total equity**
Balance at January 1, 2016	₩ 102,500,000,000	436,621,782,024	(20,049,571,187)	1,115,198,976,234	5,551,911,193,668	7,186,182,380,739	337,226,650,286	7,523,409,031,025
Total comprehensive income	-	-	-	96,153,009,662	209,404,810,475	305,557,820,137	9,793,295,914	315,351,116,051
Profit for the period	-	-	-	-	209,404,810,475	209,404,810,475	9,988,141,638	219,392,952,113
Other comprehensive income	-	-	-	96,153,009,662	-	96,153,009,662	(194,845,724)	95,958,163,938
Gain on valuation of available-for-sale financial assets	-	-	-	88,829,709,362	-	88,829,709,362	227,023,186	89,056,732,548
Loss on valuation of held-to-maturity financial assets transferred from available-for-sale financial assets	-	-	-	(1,356,912,923)	-	(1,356,912,923)	-	(1,356,912,923)
Loss on valuation of investments in associates	-	-	-	(26,368,206)	-	(26,368,206)	(1,427,416)	(27,795,622)
Loss on valuation of derivative instruments	-	-	-	(7,288,786,390)	-	(7,288,786,390)	-	(7,288,786,390)
Other comprehensive gain in separate accounts	-	-	-	12,512,077,188	-	12,512,077,188	-	12,512,077,188
Foreign currency translation adjustments for foreign operations	-	-	-	(435,691,929)	-	(435,691,929)	(420,441,494)	(856,133,423)
Gain on revaluation of property and equipment	-	-	-	4,140,544,729	-	4,140,544,729	-	4,140,544,729
Remeasurement loss related to defined benefit obligation	-	-	-	(221,562,169)	-	(221,562,169)	-	(221,562,169)
Transactions with owners:	-	-	-	-	(102,500,000,000)	(102,500,000,000)	(2,414,829,952)	(104,914,829,952)
Annual dividends	-	-	-	-	(102,500,000,000)	(102,500,000,000)	-	(102,500,000,000)
Capital changes of subsidiaries	-	-	-	-	-	-	(2,414,829,952)	(2,414,829,952)
Balance at March 31, 2016	₩ 102,500,000,000	436,621,782,024	(20,049,571,187)	1,211,351,985,896	5,658,816,004,143	7,389,240,200,876	344,605,116,248	7,733,845,317,124

See accompanying notes to the condensed consolidated interim financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of changes in equity, continued
For the three-month period ended March 31, 2017

(Unaudited)

(In won)	Attributable to shareholder of the parent company							
	Capital stock	**Capital surplus**	**Capital adjustments**	**Accumulated other comprehensive income**	**Retained earnings**	**Subtotal**	**Non -controlling interests**	**Total equity**
Balance at January 1, 2017	₩ 102,500,000,000	435,744,066,403	(16,388,490,879)	1,014,849,636,402	5,961,614,120,347	7,498,319,332,273	364,221,096,108	7,862,540,428,381
Total comprehensive income	-	-	-	3,635,289,678	181,167,633,306	184,802,922,984	6,978,725,008	191,781,647,992
Profit for the period	-	-	-	-	181,167,633,306	181,167,633,306	8,482,806,561	189,650,439,867
Other comprehensive income	-	-	-	3,635,289,678	-	3,635,289,678	(1,504,081,553)	2,131,208,125
Loss on valuation of available-for-sale financial assets	-	-	-	(1,305,909,272)	-	(1,305,909,272)	(25,103,375)	(1,331,012,647)
Loss on valuation of held-to-maturity financial assets transferred from available-for-sale financial assets		-	-	(1,805,377,815)	-	(1,805,377,815)	-	(1,805,377,815)
Gain on valuation of investments in associates		-	-	669,764,472	-	669,764,472	-	669,764,472
Loss on valuation of derivative instruments	-	-	-	(1,020,552,070)	-	(1,020,552,070)	-	(1,020,552,070)
Other comprehensive gain in separate accounts	-	-	-	5,154,727,591	-	5,154,727,591	-	5,154,727,591
Foreign currency translation adjustments for foreign operations	-	-	-	(1,448,243,937)	-	(1,448,243,937)	(1,478,978,178)	(2,927,222,115)
Gain on revaluation of property and equipment	-	-	-	3,942,212,748	-	3,942,212,748	-	3,942,212,748
Remeasurement loss related to defined benefit obligation	-	-	-	(551,332,039)	-	(551,332,039)	-	(551,332,039)
Transactions with owners:	-	-	947,950,232	-	(76,875,000,000)	(75,927,049,768)	(1,860,970,592)	(77,788,020,360)
Annual dividends	-	-	-	-	(76,875,000,000)	(76,875,000,000)	-	(76,875,000,000)
Capital changes of subsidiaries	-	-	947,950,232	-	-	947,950,232	(1,860,970,592)	(913,020,360)
Others:	-	(10,320,441)	-	-	(51,419,171)	(61,739,612)	-	(61,739,612)
Balance at March 31, 2017	₩ 102,500,000,000	435,733,745,962	(15,440,540,647)	1,018,484,926,080	6,065,855,334,482	7,607,133,465,877	369,338,850,524	7,976,472,316,401

See accompanying notes to the condensed consolidated interim financial statements.

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of cash flows
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)		**2017**	**2016**
Cash flows from operating activities			
Net income before income tax expenses	₩	248,085,227,507	286,985,917,504
Adjustments for:			
Interest income		(635,538,113,866)	(657,353,723,761)
Interest expense		25,898,809,373	44,694,224,725
Dividend income		(115,318,077,801)	(104,531,399,469)
Other adjustments to reconcile net income to net cash provided by operating activities:			
Gain on valuation of trading assets, net		(8,886,937,633)	(25,635,302,048)
Loss on valuation of trading liabilities, net		2,741,452,095	6,204,477,287
Loss (gain) on valuation of financial assets designated at FVTPL, net		(1,620,859,619)	1,626,458,435
Loss on financial liabilities designated at FVTPL, net		14,386,191,240	525,934,140
Gain on disposal of available-for-sale financial assets, net		(42,116,545,110)	(32,469,567,047)
Impairment loss of available-for-sale financial assets		15,492,068,167	2,247,938,101
Gain on disposal of held-to-maturity financial assets, net		(675,848,032)	(16,629,479)
Provision for loan losses		-	605,724,963
Reversal of Allowance Doubtful Accounts		(828,800,220)	-
Loss on foreign currency transaction, net		989,119,503,557	217,843,876,258
Gain on valuation of derivatives, net		(981,276,030,539)	(258,114,148,338)
Loss (gain) on disposal of derivatives, net		(1,243,429,415)	52,733,681,863
Gain on investments in associates, net		(5,116,570,264)	(4,787,714,833)
Amortization of deferred acquisition costs		201,773,026,944	220,119,056,705
Depreciation of investment properties		2,873,935,506	2,856,030,606
Loss (gain) on sale of investment properties and equipment, net		49,542,869	(549,383,183)
Depreciation of property and equipment		9,169,474,355	9,016,008,357
Impairment losses of property and equipment		-	9,910,022
Gain on disposal of intangible assets, net		(65,500,000)	-
Amortization of intangible assets		3,494,071,328	4,531,250,079
Impairment losses on intangible assets		574,245	98,883,069
Provision for insurance contract liabilities		787,019,314,665	987,572,025,377
Reinsurance expenses (income)		(220,049,007)	463,372,924
Severance benefits		9,844,983,906	14,517,057,950
Bad debt expenses on other assets		569,548,094	212,672,822
Other loss (gain), net		(773,985,730)	54,870,533
		993,709,131,402	1,199,666,484,563
Changes in operating assets and liabilities:			
Due from banks		(38,100,174,244)	(17,596,355,121)
Financial assets designated at FVTPL		132,765,933,478	37,698,251,322
Trading assets		(141,565,525,232)	(180,095,219,234)
Loans		147,120,043,540	(92,037,279,155)
Other receivables		(84,527,274,516)	(307,289,996,023)
Derivative assets		641,834,135,860	264,899,576,708
Deferred acquisition costs		(157,784,702,569)	(173,472,666,780)
Other assets		(54,305,925,295)	(45,680,409,376)
Separate account assets		(675,331,437,761)	(643,085,495,161)
Financial liabilities designated at FVTPL		149,347,635,386	(65,131,853,365)
Trading liabilities		105,055,478,190	281,080,653,263

See accompanying notes to the condensed consolidated interim financial statements

Kyobo Life Insurance Co., Ltd. and its subsidiaries
Condensed consolidated interim statements of cash flows, continued
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(In won)		**2017**	**2016**
Derivative liabilities		(705,512,387,486)	(286,416,946,062)
Other financial liabilities		57,411,106,596	160,039,352,677
Provisions		(70,456,251)	(2,692,109,799)
Defined benefit obligation		7,871,807,809	(3,267,785,741)
Other liabilities		61,913,859,252	57,800,660,426
Separate account liabilities		430,278,913,756	245,460,775,110
Loss on translation of foreign operations		(2,927,222,115)	(435,691,929)
		(126,526,191,602)	(770,222,538,240)
Income taxes paid		(90,208,231,777)	(95,365,811,249)
Interest received		614,037,287,066	667,005,189,982
Interest paid		(24,509,833,646)	(43,265,294,340)
Dividends received		103,581,376,873	72,060,636,779
Net cash provided by operating activities		993,211,383,529	599,673,686,494
Investing activities:			
Acquisition of available-for-sale financial assets		(4,383,133,061,112)	(3,761,740,222,819)
Disposal of available-for-sale financial assets		4,282,173,811,113	3,999,637,274,105
Acquisition of held-to-maturity financial assets		(767,160,145,024)	(854,100,204,714)
Redemption of held-to-maturity financial assets		261,648,924,360	96,041,972,548
Cash in flow from derivatives held for hedging		7,587,701,336	9,770,805,772
Cash out flow from derivatives held for hedging		(21,897,458,182)	(14,995,251,339)
Acquisition of investments in associates		(10,000,000)	(55,000,000)
Disposal of investments in associates		5,528,328,646	1,325,288,602
Acquisition of property, equipment and investment property		(7,631,511,977)	(6,741,281,715)
Disposal of property, equipment and investment property		31,985,578	17,893,139,015
Acquisition of intangible assets		(3,969,565,364)	(919,004,929)
Disposal of intangible assets		257,500,000	-
Increase in leasehold deposits		(1,501,025,056)	(4,361,269,685)
Decrease in leasehold deposits		2,443,280,602	4,703,670,939
Receipt of dividends from associates		9,118,624,410	8,300,985,643
Net cash used in investing activities		(616,512,610,670)	(505,239,098,577)
Financing activities:			
Increase (decrease) in non-controlling interest		(1,860,970,592)	1,574,375,100
Increase in rental deposits		711,698,000	1,745,139,800
Decrease in rental deposits		(741,758,274)	(1,190,492,604)
Dividends paid		(76,875,000,000)	(102,500,000,000)
Repayment for borrowings		(176,472,551,228)	(92,459,314,782)
Proceeds from borrowings		115,165,058,576	26,770,000,000
Disposal of subsidiaries' equity securities with no change in control		1,450,183,716	8,301,129,918
Net cash used in financing activities		(138,623,339,802)	(157,759,162,568)
Effect of exchange rate fluctuations on cash and cash equivalents held		(1,822,174,666)	(188,356,594,046)
Net increase (decrease) in cash and cash equivalents		236,253,258,391	(251,681,168,697)
Cash and cash equivalents at beginning of period		666,176,295,683	1,058,396,896,925
Cash and cash equivalents at end of period	₩	902,429,554,074	806,715,728,228

See accompanying notes to the condensed consolidated interim financial statements

1. Reporting entity

Kyobo Life Insurance Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the Group) are summarized as follows:

(1) Controlling Company

Kyobo Life Insurance Co., Ltd. (the Company) was established on June 30, 1958, and primarily engages in the life insurance business as permitted by the Insurance Business Law of the Republic of Korea. The Company's head office is located at Jongno-ro 1, Jongno-gu, Seoul, Republic of Korea.
As of March 31, 2017, the Company has 7 FP offices, 68 supporting offices and 534 branches in the Republic of Korea engaging in life insurance business and its related reinsurance contracts. The following table lists the number of currently available insurance products and discontinued but currently maintained insurance products as of March 31, 2017.

	Insurance products		
Type	Available	Discontinued	Total
Individual annuity	17	81	98
Pure endowment	4	26	30
Death	32	179	211
Endowment	2	39	41
Group insurance	18	23	41
	73	348	421

(2) Shareholders

The Company's major shareholders and their respective shareholdings as of March 31, 2017 are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
Chang-Jae Shin	6,925,474	33.78
Tiger Holdings LP	2,035,000	9.93
Corsair Korea Investors LLC	2,007,766	9.79
Guardian Holdings Limited	1,855,250	9.05
The Export-Import bank of Korea	1,199,001	5.85
KLI Investors LLC	1,092,165	5.33
Hoenir Inc.	1,071,125	5.23
KLIC Holdings Limited	1,071,125	5.23
Apfin Investment Pte Ltd	922,500	4.50
In-Jae Shin	518,600	2.53
AXA	460,000	2.24
Kyung-Ae Shin	350,002	1.71
Young-Ae Shin	289,992	1.41
Triumph II Investments (Ireland) Limited	220,000	1.07
Meiji Yasuda Life Insurance Company	205,000	1.00
Others	277,000	1.35
	20,500,000	100.00

1. Reporting entity (cont'd)

(3) Subsidiaries

	Location	Reporting date	Ownership (%) March 31, 2017	Ownership (%) December 31, 2016	Industry
Kyobo Securities Co., Ltd.	Korea	31-Dec	51.6	51.6	Stock brokerage
Kyobo Book Center Co., Ltd.	Korea	31-Dec	100.0	100.0	Retail of books and magazines
Kyobo Hottracks Co., Ltd.	Korea	31-Dec	100.0	100.0	Retail of stationery
Kyobo Info. & Comm. Co., Ltd.	Korea	31-Dec	89.8	89.8	Software advisory and development
Kyobo Realco Inc.	Korea	31-Dec	100.0	100.0	Non-residential property managements
Jeil Safety Service Co., Ltd.	Korea	31-Dec	100.0	100.0	Safety service
KCA Claim Adjustment Co., Ltd.	Korea	31-Dec	100.0	100.0	Service related to insurance and pension
KCA Service	Korea	31-Dec	100.0	100.0	Service
Kyobo Data Center Co., Ltd.	Korea	31-Dec	100.0	100.0	Computers and office equipment leasing
Kyobo Life Planet Life Insurance Company	Korea	31-Dec	90.5	90.5	On-line life insurance
Kyobo Life Asset Management (America) Co., Ltd.	USA	31-Dec	100.0	100.0	Asset management
Kyobo Life Asset Management (Japan) Co., Ltd.	Japan	31-Dec	100.0	100.0	Asset management
New high yield D2 open end B-1	Korea	31-Dec	100.0	100.0	Beneficiary certificates
Consus BTL Private Special Asset Investment Trust1	Korea	31-Dec	57.2	57.2	Beneficiary certificates
Consus Hope BTL Private Special Asset Investment Trust 1	Korea	31-Dec	66.7	66.7	Beneficiary certificates
Consus New Energy Private Special Asset Investment Trust 2	Korea	31-Dec	68.8	68.8	Beneficiary certificates
KIAMCO SHIPPING Private Equity Special Asset Investment Trust KX-No.1	Korea	31-Dec	100.0	100.0	Beneficiary certificates
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	Korea	31-Dec	86.7	86.7	Beneficiary certificates
IGIS KORIF Private Equity REIT No.12	Korea	31-Dec	100.0	100.0	Beneficiary certificates
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	Channel Islands	31-Dec	100.0	100.0	Beneficiary certificates

(Unaudited)

(In millions of won)

1. Reporting entity (cont'd)

(4) Financial information of subsidiaries

(a) Financial information of subsidiaries as of March 31, 2017 is as follows:

Company		Assets	Liabilities	Revenue	Net profit or loss	Total comprehensive income
Kyobo Securities Co., Ltd.	₩	5,460,376	4,701,869	416,201	17,972	17,913
Kyobo Book Center Co., Ltd.		270,301	157,015	146,951	2,340	2,340
Kyobo Hottracks Co., Ltd.		38,706	26,754	22,630	10	10
Kyobo Info. & Comm. Co., Ltd.		15,360	5,225	9,544	300	300
Kyobo Realco Inc.		48,650	15,618	23,713	761	761
Jeil Safety Service Co., Ltd.		2,262	932	2,187	36	36
KCA Claim Adjustment Co., Ltd.		14,101	4,099	7,400	893	893
KCA Service		5,571	1,885	7,248	686	686
Kyobo Data Center Co., Ltd.		48,443	1,838	1,247	803	803
Kyobo Life Planet Life Insurance Company		89,804	46,960	11,030	(4,475)	(4,434)
Kyobo Life Asset Management (America) Co., Ltd.		4,233	294	445	132	(114)
Kyobo Life Asset Management (Japan) Co., Ltd.		906	12	51	(94)	(122)
New high yield D2 open end B-1		85	24	-	-	-
Consus BTL Private Special Asset Investment Trust1		46,700	19,986	434	211	211
Consus Hope BTL Private Special Asset Investment Trust 1		44,482	14,691	717	334	334
Consus New Energy Private Special Asset Investment Trust2		34,070	10,648	487	317	317
KIAMCO Shipping Private Equity Special Asset Investment Trust KX-No.1		17,005	6	220	200	200
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust		44,259	4,751	9,574	950	950
IGIS KORIF Private Equity REIT No.12		138	137	-	-	-
Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC		55,970	-	1,308	(46)	(46)

(Unaudited)

(In millions of won)

1. Reporting entity (cont'd)

(4) Financial information of subsidiaries (cont'd)

(b) Financial information of subsidiaries as of December 31, 2016 was as follows:

Company		Assets	Liabilities	Revenue	Net profit or loss	Total comprehensive income
Kyobo Securities Co., Ltd.	₩	5,117,239	4,372,585	1,111,350	63,466	64,258
Kyobo Book Center Co., Ltd.		262,034	150,936	525,546	8,416	6,702
Kyobo Hottracks Co., Ltd.		41,266	29,323	4,187	3,135	2,653
Kyobo Info. & Comm. Co., Ltd.		19,259	9,323	35,797	429	330
Kyobo Realco Inc.		51,135	18,665	131,013	3,985	4,022
Jeil Safety Service Co., Ltd.		2,091	757	8,217	124	(51)
KCA Claim Adjustment Co., Ltd.		14,034	4,924	28,867	1,017	1,002
KCA Service		3,000	-	-	-	-
Kyobo Data Center Co., Ltd.		48,505	1,983	4,895	2,390	2,390
Kyobo Life Planet Life Insurance Company		85,471	38,194	28,175	(17,490)	(17,778)
Kyobo Life Asset Management (America) Co., Ltd.		4,249	195	954	270	295
Kyobo Life Asset Management (Japan) Co., Ltd.		1,029	14	127	(15)	(102)
New high yield D2 open end B-1		85	24	2	1	1
Consus BTL Private Special Asset Investment Trust1		47,349	20,267	1,827	878	878
Consus Hope BTL Private Special Asset Investment Trust 1		45,166	14,926	3,094	1,391	1,391
Consus New Energy Private Special Asset Investment Trust2		34,867	10,906	2,122	1,402	1,402
KIAMCO Shipping Private Equity Special Asset Investment Trust KX-No.1		17,140	5	856	834	834
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust		43,855	4,863	11,250	4,600	4,600
IGIS KORIF Private Equity REIT No.12		139	137	543	340	340
Lyxor GREAT-WANGGAETO Multi-Strategy Fund PC		60,023	-	1,731	(1,162)	(1,162)

(Unaudited)

(In millions of won)

2. Basis of preparation and significant accounting policies

(1) Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, 'Interim Financial Reporting'. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2016. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Significant accounting policies

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2016.

3. Significant accounting judgments, estimates and assumptions

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimation and assumption based on other factors that are related to historical experience. Actual results may differ from these estimates.

The significant judgments which management has made regarding the application of the Group's accounting policies and key sources of uncertainty in accounting estimates do not differ from those used in preparing the annual consolidated financial statements for the year ended December 31, 2016.

4. Cash and due from banks

(1) Cash and cash equivalent as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Cash	₩	1,027	1,257
Current deposits		2,089	9,307
Demand deposits		144,795	76,347
MMDA		465,977	523,150
Other deposits		288,542	56,115
	₩	902,430	666,176

(Unaudited)

(In millions of won)

4. Cash and due from banks (cont'd)

(2) Due from banks as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Time deposits	₩	24,728	55,728
Future transactions deposits		87,040	92,553
Reserve for claims of customers' deposits		40,000	42,000
Other deposits		597,572	520,983
Application deposits		24	-
	₩	749,364	711,264

(3) Bank deposits with withdrawal restrictions as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016	Details
Guarantee deposits for checking accounts	₩	30	30	Guarantee deposits for checking accounts
Future transactions deposits		87,040	92,553	In relation to derivatives
Other deposits		87,825	93,027	Customers' deposits of overseas futures FX margin, deposits for loan transactions, etc.
Reserve for claims of customers' deposits		40,000	42,000	Reserve for return of customer deposits
Time deposits		2,000	2,088	Payment settlement of micro payment etc.
	₩	216,895	229,698	

(Unaudited)

(In millions of won)

5. Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Hybrid financial instruments			
Equity-linked securities	₩	8,797	24,256
Other embedded derivatives		3,100	3,518
Derivative embedded bonds		44,569	47,589
Earnings adjustment on the date of transaction		(11)	(17)
		56,455	75,346
Valuation and management of fair value			
Reserve for claims of customers' deposits (*)		178,588	260,582
	₩	235,043	335,928

(*) Under the Capital Market and Finance Investment Services Act, the Group has reserved the amount required by FSC for claims of customers' deposits (trust) to Korea Securities Finance Corporation (KSFC) and its use is restricted.

6. Trading assets

(1) Trading assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Equity securities:	₩		
Stocks		5,184	20,795
Money market fund		694,856	897,648
Overseas securities		3	-
		700,043	918,443
Debt securities:			
Government and public bonds		847,095	725,859
Special bonds		337,792	361,103
Financial institutions bonds		986,415	872,819
Corporate bonds		317,510	307,485
Overseas securities		784,943	696,389
Other securities		73,472	68,420
		3,347,227	3,032,075
	₩	4,047,270	3,950,518

(In millions of won)

6. Trading assets (cont'd)

(2) Trading assets pledged as collaterals as of March 31, 2017 and December 31, 2016 are as follows:

Purpose		March 31, 2017	December 31, 2016	Counter Party
Repurchase agreements	₩	2,048,666	2,081,021	KSFC, Korea Securities Depository

7. Available-for-sale financial assets

(1) Available-for-sale financial assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Equity securities:			
Listed share	₩	643,903	672,013
Unlisted share		435,469	435,430
Equity investments		151,114	147,244
Beneficiary certificates		4,294,118	4,161,483
Overseas securities		1,119,875	924,877
Other securities		28,340	25,747
		6,672,819	6,366,794
Debt securities:			
Government and public bonds		5,611,414	5,582,335
Special bonds		4,450,420	4,934,688
Financial institutions bonds		226,810	213,294
Corporate bonds		1,957,765	2,000,035
Overseas securities		2,061,194	2,032,880
Other securities		7,887	7,943
		14,315,490	14,771,175
	₩	20,988,309	21,137,969

The fair values of domestic currency debt securities and foreign currency debt securities of available-for-sale financial assets are based on the average prices of base prices on the latest business day, which are provided by Korea Asset Pricing (KAP) and KIS Pricing Inc, etc. The fair values of unlisted stocks and investment, of which the posted prices are not available in an active market, are calculated, based on appraised values in the appraisal reports of KAP.

(2) Unlisted shares and equity investments recognized at acquisition costs as of March 31, 2017 and December 31, 2016 due to difficulties in estimating the fair value reliably were ₩12,525 million and ₩12,515 million, respectively.

(3) Impairment loss on available-for-sale financial assets for the three-month periods ended March 31, 2017 and 2016 amounted to ₩15,492 million and ₩2,248 million, respectively.

(Unaudited)

(In millions of won)

7. Available-for-sale financial assets (cont'd)

(4) Available-for-sale financial assets pledged as collateral as of March 31, 2017 and December 31, 2016 are as follows:

Purpose		March 31, 2017	December 31, 2016	Counter Party
Collateral for derivatives	₩	58,479	60,845	Barclys bank, Credit Suisse Bank, Kyobo Securities Co., Ltd.
Repurchase agreements		159,385	159,062	KSFC, Korea Securities Depository
	₩	217,864	219,907	

8. Held-to-maturity financial assets

(1) Held-to-maturity financial assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Government and public bonds	₩	10,460,230	10,302,432
Special bonds		5,463,799	5,474,841
Financial institutions bonds		562,253	562,356
Corporate bonds		1,133,348	1,143,503
Foreign securities		9,358,617	9,704,417
	₩	26,978,247	27,187,549

(2) Held-to-maturity financial assets pledged as of March 31, 2017 and December 31, 2016 are as follows:

Purpose		March 31, 2017	December 31, 2016	Counter Party
Collateral for derivatives	₩	545,083	638,564	Morgan Stanley, Barclays Bank, UBS Bank, Credit Suisse Bank, Standard Chartered Bank Korea Limited, Kookmin Bank, Deutsche Bank, Bank of America Corporation, Societe Generale Bank, Industrial Bank of Korea, Korea Development Bank

(Unaudited)

(In millions of won)

9. Loans

(1) Loans as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Call loans	₩	1,400	700
Policy loans		5,804,203	5,859,182
Loans secured by investment securities		292,184	296,777
Loans secured by real estate		4,811,229	5,037,882
Unsecured loans		6,422,301	6,360,438
Loans secured by third party guarantees		888,909	812,390
Other loans		125,425	131,095
		18,345,651	18,498,464
Present value discount		(649)	(736)
Allowance for loan losses		(48,729)	(50,093)
Deferred loan origination costs and fees		11,983	15,783
	₩	18,308,256	18,463,418

(2) Changes in allowance for loan losses for three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balance	₩	50,093	90,754
Losses (reversal) of provision for loan, net		(829)	606
Write-off		(4,204)	(4,353)
Unwinding effect		(118)	(122)
Recovery of bad debts		3,787	3,591
Ending balance	₩	48,729	90,476

(Unaudited)

(In millions of won)

10. Other receivables

(1) Details of other receivables as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Insurance receivables :			
Premiums transferred automatically	₩	3,391	83,173
Insurance settlement adjustments		1,104	1,024
Reinsurance receivables		24,726	49,568
Other insurance receivables		19,436	31,049
		48,657	164,814
Accounts receivables		566,606	275,017
Guarantee deposits		126,237	126,198
Accrued income		1,133,083	1,116,930
Others		42,611	55,015
		1,917,194	1,737,974
Present value discount		(7,205)	(8,077)
Allowance for other receivables		(34,539)	(33,965)
	₩	1,875,450	1,695,932

(2) Changes in the allowance for other receivables for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balance	₩	33,965	32,459
Provision for other receivables, net		574	213
Write-off		-	(96)
Ending balance	₩	34,539	32,576

(In millions of won)

11. Investments in associates and joint ventures

(1) Investments in associates and joint venture as of March 31, 2017 and December 31, 2016 are summarized as follows:

			March 31, 2017		December 31, 2016	
	Country	Reporting date	Book value	Owner ship (%)	Book value	Owner ship (%)
Associates:						
A&D Credit Information Co., Ltd.(*1)	Korea	December 31	3,015	19.5	3,052	19.5
Kocref No.14 REIT Co., Ltd. (*1),(*3)	Korea	November 30	-	-	5,118	14.6
Trus Y 7 REIT Co., Ltd. (*1)	Korea	October 31	3,546	8.3	3,543	8.3
KoFC Kyobo Hanhwa 2010-6 (*2)	Korea	December 31	2,677	25.0	2,506	25.0
I2S Korea Co., Ltd.	Korea	December 31	1,124	25.0	1,374	25.0
Kyobo 5 Special Purpose Acquisition Company (*1)	Korea	December 31	30	0.3	30	0.3
Hwaseong-Jeongnam General Industry Complexes Co., Ltd.(*1)	Korea	December 31	15	19.0	-	19.0
Kyobo BNK Special Purpose Acquisition Company (*1)	Korea	December 31	100	0.8	100	0.8
Kyobo 7 Special Purpose Acquisition Company (*1)	Korea	December 31	19	4.4	-	-
			10,526		15,723	
Jointly controlled entities:						
Kyobo AXA Investment Management Co., Ltd.	Korea	December 31	26,857	50.0	29,667	50.0
Saeng Bo Real Estate Trust Co., Ltd.	Korea	December 31	43,387	50.0	44,897	50.0
			70,244		74,564	
			80,770		90,287	

(*1) The entities are classified as associates even though the Group holds less than 20% of shares, since members of the Group's board of directors are also members of the entities' board and thus have significant influence over the entities.
(*2) There were no changes in the ratio of shares and investment principal has decreased due to even allocation of investment principal to investors for the three-month period ended March 31, 2017.
(*3) Kocref No.14 REIT Co., Ltd was liquidated during the three-month period ended March 31, 2017.

(Unaudited)

(In millions of won)

11. Investments in associates and joint ventures (cont'd)

(2) Changes in investments in associates and jointly controlled entities for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017						
		Beginning balance	Acquisition	Disposal	Valuation	Dividend	Changes in equity	Ending balance
Associates:								
A&D Credit Information Co., Ltd.	₩	3,052	-	-	22	(59)	-	3,015
Kocref No.14 REIT Co., Ltd		5,118	-	(5,058)	-	(60)	-	-
Trus Y 7 REIT CO., Ltd.		3,543	-	-	3	-	-	3,546
KoFC Kyobo Hanhwa 2010-6		2,506	-	(499)	670	-	-	2,677
I2S Korea Co., Ltd.		1,374	-	-	-	(250)	-	1,124
Kyobo 5 Special Purpose Acquisition Company		30	-	-	-	-	-	30
Hwaseong-Jeongnam General Industry Complexes Co., Ltd.		-	-	-	15	-	-	15
Kyobo BNK Special Purpose Acquisition Company		100	-	-	-	-	-	100
Kyobo 7 Special Purpose Acquisition Company		-	10	-	-	-	9	19
		15,723	10	(5,557)	710	(369)	9	10,526
Jointly controlled entities:								
Kyobo AXA Investment Management Co., Ltd.		29,667	-	-	940	(3,750)	-	26,857
Saeng Bo Real Estate Trust Co., Ltd.		44,897	-	-	3,496	(5,000)	(6)	43,387
		74,564	-	-	4,436	(8,750)	(6)	70,244
	₩	90,287	10	(5,557)	5,146	(9,119)	3	80,770

(Unaudited)

(In millions of won)

11. Investments in associates and joint ventures (cont'd)

(2) Changes in investments in associates and jointly controlled entities for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

		For the three-month period ended March 31, 2016					
		Beginning balance	Acquisition	Disposal	Valuation	Dividend	Ending balance
Associates:							
A&D Credit Information Co., Ltd.	₩	2,998	-	-	(92)	(49)	2,857
Kocref No.14 REIT Co., Ltd		5,686	-	-	161	(419)	5,428
Trus Y 7 REIT Co., Ltd.		3,620	-	-	(15)	(27)	3,578
KoFC Kyobo Hanhwa 2010-6		12,571	-	(1,000)	1,740	(1,801)	11,510
I2S Korea Co., Ltd.		1,371	-	-	-	(5)	1,366
Mastern 2 REIT		13,177	-	-	156	-	13,333
Kyobo 4 Special Purpose Acquisition Company		8	-	(4)	(4)	-	-
Kyobo 5 Special Purpose Acquisition Company		29	-	-	1	-	30
Hwaseong-Jeongnam General Industry Complexes Co., Ltd		10	-	-	-	-	10
Kyobo BNK Special Purpose Acquisition Company		-	55	-	-	-	55
		39,470	55	(1,004)	1,947	(2,301)	38,167
Jointly controlled entities:							
Kyobo AXA Investment Management Co., Ltd.		28,879	-	-	827	(3,000)	26,706
Saeng Bo Real Estate Trust Co., Ltd.		38,092	-	-	2,001	(3,000)	37,093
		66,971	-	-	2,828	(6,000)	63,799
	₩	106,441	55	(1,004)	4,775	(8,301)	101,966

(Unaudited)

(In millions of won)

11. Investments in associates and joint ventures (cont'd)

(3) Condensed financial information for investments in associates and jointly controlled entities as of March 31, 2017 and December 31, 2016 are summarized as follows:

	March 31, 2017				December 31, 2016			
	Assets	Liabilities	Operating income	Net income (expenses)	Assets	Liabilities	Operating income	Net income (expenses)
Associates :								
A&D Credit Information Co., Ltd.	₩ 21,205	5,742	10,138	110	22,732	7,079	41,240	526
Trus Y 7 REIT Co., Ltd.	102,001	59,073	1,550	39	101,812	58,923	6,620	(616)
KoFC Kyobo Hanhwa 2010-6	10,729	19	3,221	2,929	10,027	1	5,781	5,505
I2S Korea Co., Ltd.	6,265	1,768	-	-	7,265	1,768	53	29
Kyobo 5 Special Purpose Acquisition Company	11,967	1,402	33	1	11,945	1,381	160	47
Hwaseong-Jeongnam General Industry Complexes Co., Ltd	163,408	163,332	40	(910)	151,320	154,528	213	(3,978)
Kyobo BNK Special Purpose Acquisition Company	14,798	1,763	38	8	14,777	1,754	51	(33)
Kyobo 7 Special Purpose Acquisition Company	2,500	2,052	-	(1)	-	-	-	-
Kocref No.14 REIT Co., Ltd.	-	-	-	-	57,446	22,446	100,132	72,993
Jointly controlled entities :								
Kyobo AXA Investment Management Co., Ltd.	64,951	11,238	6,864	1,874	64,434	5,099	27,507	7,593
Saeng Bo Real Estate Trust Co., Ltd.	118,479	31,738	12,754	6,993	113,787	24,027	44,683	20,573

(4) The market value for associates and jointly controlled entities which are publicly traded as of March 31, 2017 and December 31, 2016 are summarized as follows:

	March 31, 2017		December 31, 2016	
	Fair value	Book value	Fair value	Book value
Trus Y 7 REIT Co., Ltd.	2,864	3,546	3,028	3,542
Kyobo 5 Special Purpose Acquisition Company	30	30	30	30
Kyobo BNK Special Purpose Acquisition Company	108	100	109	100

(Unaudited)

(In millions of won)

12. Classification by categories of financial instruments

(1) The carrying amounts of each category of financial assets and financial liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

		March 31, 2017							
		Fair value through profit or loss assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Hedging purpose derivatives	Fair value through profit or loss liabilities	Financial liabilities recognized by amortized cost	Total
Financial assets:									
Cash and due from banks	₩	-	-	-	1,651,794	-	-	-	1,651,794
Financial assets designated at fair value through profit or loss		235,043	-	-	-	-	-	-	235,043
Trading assets		4,047,270	-	-	-	-	-	-	4,047,270
Derivatives		232,394	-	-	-	348,825	-	-	581,219
Available-for-sale financial assets		-	20,988,309	-	-	-	-	-	20,988,309
Held-to-maturity financial assets		-	-	26,978,247	-	-	-	-	26,978,247
Loans		-	-	-	18,308,256	-	-	-	18,308,256
Other receivables		-	-	-	1,875,450	-	-	-	1,875,450
	₩	4,514,707	20,988,309	26,978,247	21,835,500	348,825	-	-	74,665,588
Financial liabilities:									
Financial liabilities designated at fair value through profit or loss	₩	-	-	-	-	-	1,667,598	-	1,667,598
Trading liabilities		-	-	-	-	-	535,645	-	535,645
Derivatives		-	-	-	-	104,194	293,790	-	397,984
Borrowings		-	-	-	-	-	-	1,372,256	1,372,256
Other financial liabilities		-	-	-	-	-	-	1,443,310	1,443,310
	₩	-	-	-	-	104,194	2,497,033	2,815,566	5,416,793

(Unaudited)

(In millions of won)

12. Classification by categories of financial instruments (cont'd)

(1) The carrying amounts of each category of financial assets and financial liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows (cont'd):

		December 31, 2016							
		Fair value through profit or loss assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Hedging purpose derivatives	Fair value through profit or loss liabilities	Financial liabilities recognized by amortized cost	Total
Financial assets:									
Cash and due from banks	₩	-	-	-	1,377,440	-	-	-	1,377,440
Financial assets designated at fair value through profit or loss		335,928	-	-	-	-	-	-	335,928
Trading assets		3,950,518	-	-	-	-	-	-	3,950,518
Derivatives		233,209	-	-	-	8,568	-	-	241,777
Available-for-sale financial assets		-	21,137,969	-	-	-	-	-	21,137,969
Held-to-maturity financial assets		-	-	27,187,549	-	-	-	-	27,187,549
Loans		-	-	-	18,463,418	-	-	-	18,463,418
Other receivables		-	-	-	1,695,932	-	-	-	1,695,932
	₩	4,519,655	21,137,969	27,187,549	21,536,790	8,568	-	-	74,390,531
Financial liabilities :									
Financial liabilities designated at fair value through profit or loss	₩	-	-	-	-	-	1,503,864	-	1,503,864
Trading liabilities		-	-	-	-	-	427,848	-	427,848
Derivatives		-	-	-	-	731,843	385,860	-	1,117,703
Borrowings		-	-	-	-	-	-	1,451,075	1,451,075
Other financial liabilities		-	-	-	-	-	-	1,412,401	1,412,401
	₩	-	-	-	-	731,843	2,317,572	2,863,476	5,912,891

(Unaudited)

(In millions of won)

12. Classification by categories of financial instruments (cont'd)

(2) Gains (losses) on categories of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017						
		Net profit and loss						
		Interest income (expense), net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income (expense), net(*)	Subtotal	Other comprehensive income (expense)
Financial assets designated at fair value through profit or loss	₩	-	704	1,621	-	30,260	32,585	-
Trading assets		15,148	(1,922)	8,887	-	(53,611)	(31,498)	-
Available-for-sale financial assets		110,629	42,117	-	(15,492)	(101,700)	35,554	(1,306)
Held-to-maturity financial assets		244,787	676	-	-	(728,774)	(483,311)	(1,805)
Trading purpose derivatives		-	33,458	57,036	-	-	90,494	-
Hedging purpose derivatives		-	9,901	924,277	-	-	934,178	(1,021)
Loans and receivables		264,974	52	-	259	(33,773)	231,512	-
Financial liabilities at fair value through profit of loss		-	(14,437)	(14,386)	-	-	(28,823)	-
Trading liabilities		-	(1,848)	(2,741)	-	-	(4,589)	-
Financial liabilities measured at amortized cost		(8,615)	-	-	-	-	(8,615)	-
	₩	626,923	68,701	974,694	(15,233)	(887,598)	767,487	(4,132)

(*) Including foreign currency transaction gain or loss and dividend income.

(Unaudited)

(In millions of won)

12. Classification by categories of financial instruments (cont'd)

(2) Gains (losses) on categories of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

		For the three-month period ended March 31, 2016						
		Net profit and loss						
		Interest income (expenses), net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income (expense), net(*)	Subtotal	Other comprehensive income (expense)
Financial assets designated at fair value through profit or loss	₩	-	2,682	(1,626)	-	4,288	5,344	-
Trading assets		19,592	10,668	25,635	-	(11,383)	44,512	-
Available-for-sale financial assets		137,277	32,470	-	(2,248)	55,986	223,485	88,830
Held-to-maturity financial assets		234,019	17	-	-	(163,717)	70,319	(1,357)
Trading purpose derivatives		-	(52,742)	46,242	-	-	(6,500)	-
Hedging purpose derivatives		-	9	211,872	-	-	211,881	(7,289)
Loans and receivables		242,889	18	-	(818)	(11,045)	231,044	-
Financial liabilities at fair value through profit of loss		-	(11,575)	(526)	-	-	(12,101)	-
Trading liabilities		-	(9,234)	(6,204)	-	-	(15,438)	-
Financial liabilities measured at amortized cost		(12,999)	-	-	-	-	(12,999)	-
	₩	620,778	(27,687)	275,393	(3,066)	(125,871)	739,547	80,184

(*) Including foreign currency transaction gain or loss and dividend income

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities

(1) Fair value of financial instruments

Book value and fair value of financial assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2016	
		Book value	Fair value	Book value	Fair value
Financial assets:					
Cash and due from banks	₩	1,651,794	1,651,794	1,377,440	1,377,440
Financial assets designated at fair value through profit or loss		235,043	235,043	335,928	335,928
Trading assets		4,047,270	4,047,270	3,950,518	3,950,518
Derivative assets		581,219	581,219	241,777	241,777
Available-for-sale financial assets		20,988,309	20,988,309	21,137,969	21,137,969
Held-to-maturity financial assets		26,978,247	28,989,490	27,187,549	29,384,891
Loans		18,308,256	18,378,570	18,463,418	18,551,605
Other receivables		1,875,450	1,912,079	1,695,932	1,731,327
	₩	74,665,588	76,783,774	74,390,531	76,711,455
Financial liabilities:					
Financial liabilities designated at fair value through profit or loss	₩	1,667,598	1,667,598	1,503,864	1,503,864
Trading liabilities		535,645	535,645	427,848	427,848
Derivative liabilities		397,984	397,984	1,117,703	1,117,703
Borrowings		1,372,256	1,374,263	1,451,075	1,452,023
Other financial liabilities		1,443,310	1,486,356	1,412,401	1,451,861
	₩	5,416,793	5,461,846	5,912,891	5,953,299

(2) Financial instruments measured at the fair value

The Group classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(2) Financial instruments measured at the fair value (cont'd)

Financial instruments measured at the fair value as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets designated at fair value through profit or loss	₩	-	178,587	56,456	235,043
Trading assets		941,532	3,105,738	-	4,047,270
Derivative assets		11,756	506,127	63,336	581,219
Available-for-sale financial assets		867,034	15,625,640	4,495,635	20,988,309
	₩	1,820,322	19,416,092	4,615,427	25,851,841
Financial liabilities:					
Financial liabilities designated at fair value through profit or loss	₩	-	-	1,667,598	1,667,598
Trading liabilities		535,645	-	-	535,645
Derivative liabilities		18,922	223,976	155,086	397,984
	₩	554,567	223,976	1,822,684	2,601,227

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Financial assets designated at fair value through profit or loss	₩	-	260,582	75,346	335,928
Trading assets		836,214	3,114,304	-	3,950,518
Derivative assets		9,331	165,014	67,432	241,777
Available-for-sale financial assets		767,532	16,032,798	4,337,639	21,137,969
	₩	1,613,077	19,572,698	4,480,417	25,666,192
Financial liabilities:					
Financial liabilities designated at fair value through profit or loss	₩	-	-	1,503,864	1,503,864
Trading liabilities		427,848	-	-	427,848
Derivative liabilities		15,525	944,799	157,379	1,117,703
	₩	443,373	944,799	1,661,243	3,049,415

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(3) Changes in level 3 fair value hierarchy for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017				
		Financial assets designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	Derivatives, net	Available-for-sale financial assets	Total
Beginning balance	₩	75,346	(1,503,864)	(89,947)	4,337,639	2,819,174
Purchases		996	(582,437)	20,161	234,587	(326,693)
Settlements		(20,677)	402,645	(20,008)	(89,314)	272,646
Total income:		791	16,058	(1,956)	12,723	27,616
Profit or loss		791	16,058	(1,956)	4	14,897
Other comprehensive income		-	-	-	12,719	12,719
	₩	56,456	(1,667,598)	(91,750)	4,495,635	2,792,743

(*) There was no transfer between level 3 and other levels for the three-month period ended March 31, 2017.

		For the three-month period ended March 31, 2016				
		Financial assets designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	Derivatives, net	Available-for-sale financial assets	Total
Beginning balance	₩	131,736	(1,612,755)	(35,326)	4,142,094	2,625,749
Purchases		50,081	(269,314)	(92,258)	242,538	(68,953)
Settlements		(33,911)	330,065	11,419	(76,037)	231,536
Total income:		(3,276)	3,855	5,908	(7,205)	(718)
Profit or loss		(3,276)	3,855	5,908	(1,056)	5,431
Other comprehensive income		-	-	-	(6,149)	(6,149)
Transfers into level 3		-	-	-	269	269
	₩	144,630	(1,548,149)	(110,257)	4,301,659	2,787,883

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(4) Total gains or losses for the three-month periods ended March 31, 2017 and 2016 recognized in profit or loss and gains or losses relating to financial instruments in level 3 held at the end of the reporting year are presented in the statement of comprehensive income as follows:

		For the three-month period ended March 31, 2017	
		Total gains (losses)	Gains (losses) relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in level 3	₩	3,952	14,897

		For the three-month period ended March 31, 2016	
		Total gains (losses)	Gains (losses) relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in level 3	₩	(4,633)	5,431

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(5) Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017

Type of financial instrument	Valuation technique	Input variables
Financial assets:		
Financial assets designated at fair value through profit or loss	Discounted cash flow	Discount rate
Trading assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price
Derivative assets	Discounted cash flow, Option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price
Available-for-sale financial assets	Discounted cash flow, Dividend discount model	Interest rate, foreign exchange rate, stock price
Financial liabilities:		
Derivative liabilities	Discounted cash flow, Option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price

December 31, 2016

Type of financial instrument	Valuation technique	Input variables
Financial assets:		
Financial assets designated at fair value through profit or loss	Discounted cash flow	Discount rate
Trading assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price
Derivative assets	Discounted cash flow, Option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price
Available-for-sale financial assets	Discounted cash flow, Dividend discount model	Interest rate, foreign exchange rate, stock price
Financial liabilities:		
Derivative liabilities	Discounted cash flow, Option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price

(6) There was no transfer between level 1 and level 2 for the three-month periods ended March 31, 2017 and 2016.

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(7) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial assets				
Financial assets designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset	0% ~ 99%	Not standardized but depends on the structure of financial instrument
		Correlations	-0.99 ~ 0.99	
Derivative assets	Price formulas, Simulation, 1-factor Gaussian Copular model	The volatility of the underlying asset	0% ~ 99%	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument
		Correlations	-0.99 ~ 0.99	
Available-for-sale financial Assets	Discounted cash flow, Dividend discount model, Net asset method, Residual income model	Permanent growth rate	0% ~ 2.00%	A significant increase in growth rate would result in a higher fair value
		Discount rate	1.95% ~ 15.34%	A significant increase in discount rate would result in a lower fair value
		The volatility of liquidation value rate	0%	A significant increase in liquidation value rate would result in a higher fair value

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(7) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of March 31, 2017 and December 31, 2016 are as follows (cont'd):

March 31, 2017

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial liabilities				
Financial liabilities designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset Correlations	0% ~ 99% -0.99 ~ 0.99	Not standardized but depends on the structure of financial instrument
Derivative liabilities	Price formulas, Simulation, 1-factor Gaussian Copular model, Hull & White model	The volatility of the underlying asset Correlations	0% ~ 99% -0.99 ~ 0.99	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(7) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of March 31, 2017 and December 31, 2016 are as follows (cont'd):

December 31, 2016

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial assets				
Financial assets designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset Correlations	0% ~ 99% -0.99 ~ 0.99	Not standardized but depends on the structure of financial instrument.
Derivative assets	Price formulas, Simulation, 1-factor Gaussian Copular model	The volatility of the underlying asset Correlations	0% ~ 99% -0.99 ~ 0.99	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.
Available-for-sale financial Assets	Discounted cash flow, Dividend discount model, Net asset method, Residual income model	Permanent growth rate	0% ~ 2.00%	A significant increase in growth rate would result in a higher fair value.
		Discount rate	2.41% ~ 21.76%	A significant increase in discount rate would result in a lower fair value.
		The volatility of liquidation value rate	0%	A significant increase in liquidation value rate would result in a higher fair value.

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(7) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of March 31, 2017 and December 31, 2016 are as follows (cont'd):

December 31, 2016

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Financial liabilities				
Financial liabilities designated at fair value through profit or loss	Price formulas, Simulation	The volatility of the underlying asset	0% ~ 99%	Not standardized but depends on the structure of financial instrument.
		Correlations	-0.99 ~ 0.99	
Derivative liabilities	Price formulas, Simulation, 1-factor Gaussian Copular model, Hull & White model	The volatility of the underlying asset	0% ~ 99%	For CDS, increase in correlation coefficient would result in a lower fair value. For ELW, increase in volatility would result in higher fair value. Stock derivative option is not standardized but depends on the structure of financial instrument.
		Correlations	-0.99 ~ 0.99	
		Discount rate	1.92%	A significant increase in interest rate would result in a higher fair value.

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(8) For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income.

		March 31, 2017			
		Net income		Other comprehensive income	
		Favorable change	Unfavorable change	Favorable change	Unfavorable change
Financial assets:	₩				
Financial assets designated at fair value through profit or loss (*1)		163	(148)	-	-
Derivative assets (*1)		670	(1,204)	-	-
Available-for-sale financial assets (*2)		-	-	25,747	(13,784)
	₩	833	(1,352)	25,747	(13,784)
Financial liabilities:					
Financial liabilities designated at fair value through profit or loss (*1)	₩	4,526	(5,394)	-	-
Derivative liabilities (*1)		4,067	(4,048)	-	-
	₩	8,593	(9,442)	-	-

(*1) Change in fair value is calculated by increasing or decreasing the correlation of the fluctuation range of underlying assets price (-10%~10%) and volatility (-10%~10%).
(*2) Change in fair value is calculated by increasing or decreasing the correlation of permanent growth rate (0%~1% or -1% ~1%)), liquidation value rate (-1% ~1%) and discount rate (-1%~1%).

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(8) For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income. (cont'd)

		December 31, 2016			
		Net income		Other comprehensive income	
		Favorable change	Unfavorable change	Favorable change	Unfavorable change
Financial assets:	₩				
Financial assets designated at fair value through profit or loss (*1)		483	(269)	-	-
Derivative assets (*1)		128	(1,555)	-	-
Available-for-sale financial assets (*2)		-	(11)	25,145	(13,545)
	₩	611	(1,835)	25,145	(13,545)
Financial liabilities					
Financial liabilities designated at fair value through profit or loss (*1)	₩	9,254	(8,285)	-	-
Derivative liabilities (*1)(*3)		8,473	(9,612)	-	-
	₩	17,727	(17,897)	-	-

(*1) Change in fair value is calculated by increasing or decreasing the correlation of the fluctuation range of underlying assets price (-10%~10%) and volatility (-10%~10%).
(*2) Change in fair value is calculated by increasing or decreasing the correlation of permanent growth rate (0%~1% or -1% ~1%)), liquidation value rate (-1% ~1%) and discount rate (-1%~1%).
(*3) Change in fair value is calculated by increasing or decreasing the discount rate (-1% ~1%).

(Unaudited)

(In millions of won)

13. Fair value of financial assets and liabilities (cont'd)

(9) The fair value hierarchy of financial instruments which are not measured at fair value in the consolidated statement of financial position as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	₩	1,027	1,650,767	-	1,651,794
Held-to-maturity financial assets		-	28,989,490	-	28,989,490
Loans		-	-	18,378,570	18,378,570
Other receivables		-	-	1,912,079	1,912,079
	₩	1,027	30,640,257	20,290,649	50,931,933
Financial liabilities:					
Borrowings		-	-	1,374,263	1,374,263
Other financial liabilities		-	-	1,486,356	1,486,356
	₩	-	-	2,860,619	2,860,619

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	₩	1,257	1,376,183	-	1,377,440
Held-to-maturity financial assets		8	29,384,883	-	29,384,891
Loans		-	-	18,551,605	18,551,605
Other receivables		-	-	1,731,327	1,731,327
	₩	1,265	30,761,066	20,282,932	51,045,263
Financial liabilities:					
Borrowings		-	28,012	1,424,011	1,452,023
Other financial liabilities		-	-	1,451,861	1,451,861
	₩	-	28,012	2,875,872	2,903,884

(Unaudited)

(In millions of won)

14. Investment properties

(1) Investment properties as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	803,149	-	(6,276)	796,873
Buildings		460,329	(125,809)	(9,111)	325,409
Structures		8,802	(2,211)	(209)	6,382
	₩	1,272,280	(128,020)	(15,596)	1,128,664

		December 31, 2016			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	806,945	-	(6,578)	800,367
Buildings		461,357	(123,717)	(8,588)	329,052
Structures		8,803	(2,166)	(201)	6,436
	₩	1,277,105	(125,883)	(15,367)	1,135,855

(2) Investment property pledged as collaterals as of March 31, 2017 and December 31, 2016 are as follows:

			March 31, 2017	December 31, 2016	Purpose
Doosan Heavy Industries & Construction, Woori Bank, McDonald's Korea and 73 others	Book value	₩	106,795	104,781	Establishment of the right to collateral security
	Maximum credit amount		119,396	117,203	

(Unaudited)

(In millions of won)

15. Property and equipment

(1) Property and equipment as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	808,316	-	(6,492)	801,824
Buildings		676,005	(186,425)	(41,597)	447,983
Structures		20,071	(6,231)	(315)	13,525
Vehicles		2,709	(2,167)	-	542
Equipment		431,181	(374,370)	-	56,811
Construction in progress		57	-	-	57
Others		55,504	(32,140)	(373)	22,991
	₩	1,993,843	(601,333)	(48,777)	1,343,733

		December 31, 2016			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	808,359	-	(7,414)	800,945
Buildings		678,297	(184,168)	(42,120)	452,009
Structures		20,084	(6,140)	(323)	13,621
Vehicles		2,649	(2,108)	-	541
Equipment		444,479	(387,767)	-	56,712
Construction in progress		616	-	-	616
Others		41,380	(19,620)	(373)	21,387
	₩	1,995,864	(599,803)	(50,230)	1,345,831

(2) Reserve for revaluation as of March 31, 2017 is as follows:

Revaluation date		Amount
January 1, 1981	₩	165
April 1, 1989		66,223
April 1, 1999		23,900
		90,288
Deferred tax effect		(19,863)
	₩	70,425

(Unaudited)

(In millions of won)

15. Property and equipment (cont'd)

(2) Reserve for revaluation as of March 31, 2017 is as follows (cont'd):

As of April 1, 1999, a certain portion of the Group's property and equipment was revalued in accordance with the Korean Asset Revaluation Law. As a result, the revaluation increment amounting to ₩478,550 million was classified as asset revaluation reserve. Out of this amount, ₩47,800 million, excluding ₩430,750 million, was calculated as asset revaluation reserve. The asset revaluation reserve amounting to ₩23,900 million was transferred to capital stock during the year ended March 31, 2002. Out of ₩430,750 million, the amount of ₩64,000 million was transferred to the reserve for special participating policyholders' dividends and was paid during the year ended March 31, 2002, while the amount of ₩63,750 million was transferred to reserve for social contributions in policyholders' equity. The amount of ₩126,438 million, out of the remainder amounting to ₩303,000 million, was used for dividends to policyholders for the year ended March 31, 2001, while the amount of ₩176,562 million was transferred to reserve for participating policyholder's dividends for stabilization. The amount of ₩149,241 million, a part of reserve for participating policyholder's dividends for stabilization, was used for dividends to policyholders. The reserve for participating policyholder's dividends for stabilization amounts to ₩27,321 million.

The amount of ₩65,923 million from the Group's reserve for revaluation incurred on April 1, 1989 will be used for future policyholder's dividend or deficit recovery. Therefore, it is excluded from the Group's equity when conducting security analysis.

16. Intangible assets

Intangible assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Goodwill	₩	9,357	-	-	9,357
Software		121,198	(110,118)	-	11,080
Development cost		138,314	(123,191)	-	15,123
Memberships		13,972	-	(1,246)	12,726
Others		16,488	(11,741)	-	4,747
	₩	299,329	(245,050)	(1,246)	53,033

(Unaudited)

(In millions of won)

16. Intangible assets (cont'd)

Intangible assets as of March 31, 2017 and December 31, 2016 are as follows (cont'd):

		December 31, 2016			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Goodwill	₩	9,357	-	-	9,357
Software		118,669	(107,045)	-	11,624
Development cost		132,478	(116,783)	-	15,695
Memberships		14,888	-	(2,583)	12,305
Others		15,191	(11,700)	(11)	3,480
	₩	290,583	(235,528)	(2,594)	52,461

17. Deferred acquisition costs

Changes in deferred acquisition costs for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017					
			Acquisition cost				
		Beginning balance	Total generated acquisition cost(*)	Immediately expensed amount (*)	Deffered amount	Amortization of deferred acquisition costs	Ending balance
Individual insurance	₩	1,758,274	193,113	(39,194)	153,919	(198,537)	1,713,656
Group insurance		28,602	4,247	(382)	3,865	(3,236)	29,231
	₩	1,786,876	197,360	(39,576)	157,784	(201,773)	1,742,887

		For the three-month period ended March 31, 2016					
			Acquisition cost				
		Beginning balance	Total generated acquisition cost(*)	Immediately expensed amount (*)	Deffered amount	Amortization of deferred acquisition costs	Ending balance
Individual insurance	₩	1,933,060	214,844	(44,775)	170,069	(216,911)	1,886,218
Group insurance		26,154	4,153	(750)	3,403	(3,208)	26,349
	₩	1,959,214	218,997	(45,525)	173,472	(220,119)	1,912,567

(*) These columns are not included in the mathematical calculations of ending balance.

(Unaudited)

(In millions of won)

18. Other assets

Other assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Reinsurance assets	₩	19,076	18,856
Prepaid expense		43,784	17,051
Advance payments		55,598	37,463
Inventories		80,022	72,335
Others		3,357	600
	₩	201,837	146,305

19. Non-current assets held-for-sale

The Group reclassified property, equipment and investment property amounting to ₩4,954 million which were planned to be disposed in short-term as non-current assets held-for-sale as of March 31, 2017.

20. Liabilities under insurance contracts

The details of liabilities under insurance contracts as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017				
		Pure endowment	Death	Endowment	Group	Total
Premium reserve	₩	25,991,113	30,662,571	4,543,669	416,233	61,613,586
Unearned premium reserve		231	2,014	2	5,216	7,463
Reserve for outstanding claims		767,172	796,499	44,722	62,376	1,670,769
Reserve for participating policyholder's dividend		395,300	6,093	4,035	2,334	407,762
		27,153,816	31,467,177	4,592,428	486,159	63,699,580
Guarantee reserve						700,720
Dividends reserve for policyholder's income participation						32,288
Reserve for losses on dividend insurance contract						46,905
					₩	64,479,493

(Unaudited)

(In millions of won)

20. Liabilities under insurance contracts (cont'd)

The details of liabilities under insurance contracts as of March 31, 2017 and December 31, 2016 are as follows (cont'd):

		December 31, 2016				
		Pure endowment	Death	Endowment	Group	Total
Premium reserve	₩	25,740,084	30,159,305	4,471,015	430,215	60,800,619
Unearned premium reserve		214	2,080	3	4,666	6,963
Reserve for outstanding claims		755,715	805,303	46,152	61,725	1,668,895
Reserve for participating policyholder's dividend		395,967	6,428	4,252	2,934	409,581
		26,891,980	30,973,116	4,521,422	499,540	62,886,058
Guarantee reserve						713,392
Dividends reserve for policyholder's income participation						24,702
Reserve for losses on dividend insurance contract						43,377
					₩	63,667,529

21. Policyholder's equity adjustments

Policyholder's equity adjustments as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Reserve for policyholder dividend stabilization	₩	27,322	27,322
Fund for public projects		99,466	99,466
Gain on valuation of available-for-sale financial assets		134,951	142,579
Gain on valuation of held-to-maturity financial assets		32,629	34,257
Loss on valuation of investment in associates		(250)	(260)
Gain on revaluation of property and equipment		155,139	160,341
	₩	449,257	463,705

(Unaudited)

(In millions of won)

22. Liability adequacy tests (LAT)

The Group concluded that there are no significant changes to the assumptions such as experience rate, etc. as of December 31, 2016. Thus, it did not calculate deficiency (surplus) of liability adequacy as of March 31, 2017.

The assumptions and calculation methods used in the calculation of current estimates for future cash flows in the Liability Adequacy Test as of December 31, 2016 are as follows:

	Assumed rate (%)
Discount rate(*1)	2.13 ~ 8.64
Risk premium rate(*2)	19 ~ 259
Surrender ratio(*3)	0.3 ~ 72

(*1) Discount rate curve presented by Financial Supervisory Service plus risk discount rate calculated by the Company based on historical information.
(*2) Ratio of premium paid to risk premium based on past statistics of recent 5 years or more by product type, time insurance is sold and lapse of time.
(*3) Ratio of earned premium for surrender to earned premium based on past statistics of recent 5 years or more by product type, channel type, payment method type and by lapse of time.

Acquisition costs of the operating and administrative expenses are calculated by applying ratio of actual acquisition cost to planned acquisition cost based on past statistics of recent 1 year by product type. And maintenance fee is based on past statistics of recent 1 year by insurance and insurance contracts.

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Hybrid financial instruments			
Equity-linked securities sold	₩	131,884	174,267
Derivatives-combined securities sold		595,344	347,463
Derivatives-combined debt sold		940,543	982,338
The settled amounts of valuation		(173)	(204)
		1,667,598	1,503,864

(Unaudited)

(In millions of won)

24. Trading liabilities

Trading liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Securities sold	₩		
Equity		48,196	59,262
Government bond and local government bond		487,449	368,586
		535,645	427,848

25. Borrowings

Borrowings as of March 31, 2017 and December 31, 2016 are summarized as follows:

	Creditors		March 31, 2017	December 31, 2016
Call money	KOOKMIN BANK	₩	30,000	142,300
Bonds sold under repurchase agreements	Public offerings		917,216	997,207
Subordinated debt securities issued	DONGBU INSURANCE CO., LTD., KB Insurance Co., Ltd, Lotte Non-Life Insurance Co., Ltd., HANWHA LIFE INSURANCE CO., LTD.		170,181	170,174
Borrowings from Korea Securities Finance Co., Ltd.	Korea Securities Finance Co., Ltd.		124,249	113,383
Borrowings for general purpose	Woori Bank, SHINHAN Bank		8,710	4,411
Borrowings for equipment	SHINHAN Bank, Korea Development Bank		21,900	23,600
Commercial paper	TONGYANG Asset Management Corp, hyundai investment management		100,000	-
		₩	1,372,256	1,451,075

(In millions of won)

26. Other financial liabilities

Other financial liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Insurance payables:			
Dormant policies	₩	36,807	41,563
Insurance settlement adjustments		1,027	924
Reinsurance payables		25,703	44,137
		63,537	86,624
Accounts payable		561,383	382,116
Accrued expenses		203,868	275,609
Leasehold deposits		143,893	143,633
Present value discount		(8,020)	(8,304)
Trust accounts liabilities		4,617	5,518
Customers' deposits		360,048	418,548
Securities deposit received		8,570	11,148
Others		105,414	97,509
	₩	1,443,310	1,412,401

27. Provisions

Changes in provisions for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017			
		Provision for restoration cost	Litigation	Others	Total
Beginning balance	₩	16,649	465	1,756	18,870
Increase		278	-	-	278
Provision used		(70)	-	-	(70)
Provision		-	8	60	68
Ending balance	₩	16,857	473	1,816	19,146

		For the three-month period ended March 31, 2017			
		Provision for restoration cost	Litigation	Others(*)	Total
Beginning balance	₩	16,464	812	9,665	26,941
Increase		443	-	329	772
Provision used		(254)	-	-	(254)
Reversal of provision		-	(27)	(3,001)	(3,028)
Ending balance	₩	16,653	785	6,993	24,431

(*) Other provisions were related to insurance claims by the suicide in the Accidental Death Special Agreement. And the Group lost a case in Supreme Court judgment on May 12, 2016.

(Unaudited)

(In millions of won)

28. Defined benefit obligation

(1) The Group operates defined benefit plan based on compensation for pension for the employees and the period of providing services. The Group has trusted the plan assets of defined benefit obligations at KOOKMIN BANK and others.

Defined benefit plan assets and liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

		March 31, 2017	December 31, 2016
Present value of defined benefit obligation	₩	280,532	272,262
Fair value of plan assets		(236,158)	(246,332)
Recognized liabilities for defined benefit obligation	₩	44,374	25,930

(2) Changes in the present value of defined benefit obligation for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balances	₩	272,262	279,289
Current service costs		9,630	11,006
Interest expenses		1,300	1,413
Benefits paid by the plan		(2,660)	(6,857)
Ending balances	₩	280,532	284,851

(3) Changes in the fair value of plan assets for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balance	₩	246,332	217,268
Interest income		1,086	1,020
Remeasurements		(727)	(293)
Contributions paid into the plan		500	600
Benefits paid by the plan		(11,033)	(7,307)
Ending balances	₩	236,158	211,288

(In millions of won)

28. Defined benefit obligation (cont'd)

(4) Plan assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2016	
		Amount	Ratio (%)	Amount	Ratio (%)
Time deposits	₩	136,006	57.59	145,657	59.13
Equity securities		9,868	4.18	6,793	2.76
Debt securities		57,084	24.17	60,125	24.41
Property		75	0.03	63	0.02
Investment fund		33,125	14.03	33,694	13.68
	₩	236,158	100.00	246,332	100.00

29. Other liabilities

Other liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Advance receipts	₩	14,910	11,142
Unearned income		20,552	21,402
Withholding		67,669	45,253
Value added tax withhold		7,521	6,022
Unearned insurance premium		149,188	168,055
Others		53,070	100
	₩	312,910	251,974

(In millions of won)

30. Derivatives

(1) Fair values of derivative instruments as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2016	
		Assets	Liabilities	Assets	Liabilities
Hedge related:					
Currency related:					
Currency forwards	₩	79,828	10,136	2,083	205,903
Currency swaps		268,997	93,132	6,485	525,937
		348,825	103,268	8,568	731,840
Interest rate related:					
Interest rate swaps		-	926	-	3
		348,825	104,194	8,568	731,843
Non-hedge related:					
Currency related:					
Currency forwards		39,319	39,242	9,790	88,542
Currency swaps		10,626	52,464	38,286	94,824
		49,945	91,706	48,076	183,366
Interest rate related:					
Interest rate swaps		16,454	76,047	18,064	80,603
Interest rate options		-	662	-	654
		16,454	76,709	18,064	81,257
Equity related:					
Stock index options		12,638	11,436	17,798	20,831
Equity linked warrants		1,079	6,032	-	-
Conversion rights		2,603	-	2,495	-
Others		42,223	77,652	43,961	74,154
		58,543	95,120	64,254	94,985
Credit related:					
Credit default swaps		96,919	19,894	96,651	20,210
Commodity related:					
Commodity swaps		10,620	10,389	6,272	6,100
		232,481	293,818	233,317	385,918
Adjustment of credit risk		(87)	(28)	(108)	(58)
	₩	581,219	397,984	241,777	1,117,703

(In millions of won)

30. Derivatives (cont'd)

(2) Gain or loss on valuation of derivatives for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017			
		Net income		Accumulated other comprehensive income(*)	
		Gain	Loss	Gain	Loss
Hedge related:					
Currency related:					
Currency forwards	₩	257,747	776	7,351	4,903
Currency swaps		666,441	244	71,516	6,294
		924,188	1,020	78,867	11,197
Interest rate related:					
Interest rate swaps		-	-	-	926
		924,188	1,020	78,867	12,123
Non-hedge related:					
Currency related:					
Currency forwards		79,020	26,780	-	-
Currency swaps		44,653	41,474	-	-
		123,673	68,254	-	-
Interest rate related:					
Interest rate swaps		4,271	2,836	-	-
Interest rate options		8	16	-	-
		4,279	2,852	-	-
Equity related:					
Stock derivative options		3,667	5,087	-	-
Stock index options		2,013	1,450	-	-
Conversion rights		4	53	-	-
Others		7,220	13,384	-	-
		12,904	19,974	-	-
Credit related:					
Credit default swaps		30,643	24,781	-	-
Commodity related:					
Commodity swaps		5,691	3,176	-	-
		177,190	119,037	-	-
Adjustment of credit risk		50	58	3	-
	₩	1,101,428	120,115	78,870	12,123

(*) Accumulated other comprehensive income from cash flow hedge before adjustment for income tax effect.

(Unaudited)

(In millions of won)

30. Derivatives (cont'd)

(2) Gain or loss on valuation of derivatives for the three-month periods ended March 31, 2017 and 2016 are as follows cont'd:

		For the three-month period ended March 31, 2016			
		Net income		Accumulated other comprehensive income(*)	
		Gain	Loss	Gain	Loss
Hedge related:					
Currency related:					
Currency forwards	₩	44,128	1,293	5,514	305
Currency swaps		166,835	24	30,204	13,610
		210,963	1,317	35,718	13,915
Non-hedge related:					
Currency related:					
Currency forwards		42,905	24,755	-	-
Currency swaps		25,508	16,566	-	-
		68,413	41,321	-	-
Interest rate related:					
Interest rate swaps		2,527	8,239	-	-
Interest rate options		883	1,024	-	-
		3,410	9,263	-	-
Equity related:					
Stock derivative options		1,310	1,536	-	-
Stock index options		10	1	-	-
Conversion rights		819	72	-	-
Others		15,441	10,660	-	-
		17,580	12,269	-	-
Credit related:					
Credit default swaps		41,878	19,781	-	-
Commodity related:					
Commodity swaps		10,185	10,673	-	-
		141,466	93,307	-	-
Adjustment of credit risk		67	(209)	-	-
	₩	352,496	94,415	35,718	13,915

(*) Accumulated other comprehensive income from cash flow hedge before adjustment for income tax effect.

(Unaudited)

(In millions of won)

30. Derivatives (cont'd)

(3) Gain or loss on hedging instruments and hedged items that apply fair value hedges for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
		Gain	Loss	Gain	Loss
Hedged items	₩	168	151,197	10,660	45,547
Hedging instruments		157,520	1,020	51,283	7,884

(4) Cash flow hedges

Due to various reasons (i.e. currency swap contracts for cash flow hedges have reached maturity), the effective portion of hedges for the three-month periods ended March 31, 2017 and 2016 realized as gain on valuation of derivative instruments amount to ₩450 million and ₩79 million, respectively, and loss on valuation of derivative instruments amount to ₩107 million and ₩1,322 million, respectively. Meanwhile, the ineffective portion of cash flow hedges recognized as current gain and loss were ₩2 million and ₩8 million, respectively, for the three-month periods ended March 31, 2017 and 2016.

The maximum expected expiration date of which the Group's cash flows are exposed to fluctuation risk is February 1, 2027 based on derivative instrument contract to which cash flow hedges apply.

31. Separate accounts

(1) Assets and liabilities of separate accounts as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2017	
		Assets	Liabilities	Assets	Liabilities
Insurance contract and investment contract with discretionary participating features:					
Retirement insurance	₩	113,412	113,412	115,153	115,153
Variable life insurance		14,467,097	14,472,586	13,997,836	14,000,541
		14,580,509	14,585,998	14,112,989	14,115,694
Investments contract with no discretionary participating features:					
Retirement insurance		2,014	2,008	2,050	2,042
Retirement pension		4,016,147	4,003,514	4,069,102	4,063,270
		4,018,161	4,005,522	4,071,152	4,065,312
Separate accounts receivable		-	(64,477)	-	(52,497)
Separate accounts payable		(249,868)	-	(510,670)	-
	₩	18,348,802	18,527,043	17,673,471	18,128,509

(Unaudited)

(In millions of won)

31. Separate accounts (cont'd)

(2) The statement of financial position of the separate accounts as of March 31, 2017 and December 31, 2016 are as follows:

(a) Insurance contract and investments contract with discretionary participation feature

		March 31, 2017	December 31, 2016
Assets:			
Cash and due from banks	₩	449,835	456,276
Trading assets		13,388,032	12,936,199
Loans		343,504	395,797
Other assets		210,547	182,477
General account credits		194,080	144,945
Total assets before consolidated adjustments		14,585,998	14,115,694
Consolidated adjustments		(5,489)	(2,705)
Total assets after consolidated adjustments	₩	14,580,509	14,112,989
Liabilities, reserve and accumulated other comprehensive income:			
Other liabilities	₩	89,299	50,328
General account debits		58,208	32,821
Total liabilities		147,507	83,149
Reserve for policy holders		14,438,491	14,032,545
Total reserve and accumulated other comprehensive income		14,438,491	14,438,491
Total liabilities, reserve and accumulated other comprehensive income	₩	14,585,998	14,115,694

(Unaudited)

(In millions of won)

31. Separate accounts (cont'd)

(2) The statement of financial position of the separate accounts as of March 31, 2017 and December 31, 2016 are as follows (cont'd):

(b) Investments contract with no discretionary participation feature

		March 31, 2017	December 31, 2016
Assets:			
Cash and due from banks	₩	90,841	93,728
Trading assets		482,390	195,056
Available-for-sale financial assets		3,245,819	3,249,699
Held-to-maturity financial assets		72,543	78,335
Loans		123,372	159,750
Other assets		52,920	34,905
General account credits		55,787	365,726
Total assets before consolidated adjustments		4,123,672	4,177,199
Consolidated adjustments		(105,511)	(106,047)
Total assets after consolidated adjustments	₩	4,018,161	4,071,152
Liabilities, reserve and accumulated other comprehensive income:			
Other liabilities	₩	23,894	45,676
General account debits		6,269	19,676
Total liabilities		30,163	65,352
Reserve for policy holders		3,975,359	3,999,960
Accumulated other comprehensive income		13,197	6,396
Total reserve and accumulated other comprehensive income		3,988,556	4,006,356
Total liabilities, reserve and accumulated other comprehensive income:	₩	4,018,719	4,071,708

(Unaudited)

(In millions of won)

31. Separate accounts (cont'd)

(3) The statement of income of the separate accounts for the three-month periods ended March 31, 2017 and 2016 are as follows:

(a) Insurance contract and investments contract with discretionary participation feature

		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
		Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:					
Premium income	₩	-	726,104	-	724,327
Interest income		366	38,455	358	36,530
Dividend income		-	5,784	-	5,356
Gain on securities		137	458,477	162	329,942
Gain on foreign currency transaction		-	38	-	163
Gain on transaction of derivatives		-	28,013	-	32,120
Other income		-	6,658	-	10,289
	₩	503	1,263,529	520	1,138,727
Expenses:					
Increase (decrease) in policy reserves	₩	(1,580)	432,470	(3,088)	307,060
Insurance claims paid		1,905	508,520	3,384	408,319
Minimum guarantee fee		-	17,822	-	15,835
Separate account commission		173	178,887	189	182,395
Commission fee		-	9,313	-	10,061
Provision (reversal of) for loan losses		-	(13)	-	40
Loss on securities		5	96,339	35	183,232
Loss on foreign currency transaction		-	48	-	41
Loss on transaction of derivatives		-	19,327	-	31,600
Other expenses		-	816	-	144
	₩	503	1,263,529	520	1,138,727

(Unaudited)

(In millions of won)

31. Separate accounts (cont'd)

(3) The statement of income of the separate accounts for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

(b) Investments contract with no discretionary participation feature

		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
		Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:					
Interest income	₩	18,198	119	21,095	110
Dividend income		3,151	5	372	10
Gain on securities		5,322	2,262	9,231	781
Gain on foreign currency transaction		52	-	82	-
Gain on transaction of derivatives		31,309	29	10,674	106
Other income		1,035	1	974	1
		59,067	2,416	42,428	1,008
Consolidated adjustments		(615)	-	(567)	-
	₩	58,452	2,416	41,861	1,008
Expenses:					
Interest expenses of withholdings	₩	13,776	1,631	16,724	601
Separate account commission		8,014	574	13,291	(516)
Commission fee		3	26	16	23
Provision for loan losses		18	-	89	-
Loss on securities		5,800	160	1,065	819
Loss on foreign currency transaction		2,560	-	83	-
Loss on transaction of derivatives		11	25	495	81
Other expenses		28,885	-	10,665	-
		59,067	2,416	42,428	1,008
Consolidated adjustments		(615)	-	(567)	-
	₩	58,452	2,416	41,861	1,008

(4) In accordance with the regulations under Trust Business Act, the Group separately accounts for the trust assets from existing assets, and recognizes trust commission fee as operating revenue when receiving trust commission fee. As of March 31, 2017, the total amount of the trust funds under contract with the Group is ₩5,068,048 million.

(Unaudited)

(In millions of won)

32. Equity

(1) Equity as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Capital stock:			
Common stock	₩	102,500	102,500
Capital surplus:			
Share premium		359,937	359,937
Asset revaluation surplus		70,425	70,425
Others		5,372	5,382
		435,734	435,744
Capital adjustments:			
Loss on valuation of investments using equity method		(15,995)	(15,995)
Others		554	(393)
		(15,441)	(16,388)
Accumulated other comprehensive income, net of tax:			
Gain on valuation of available-for-sale financial assets		370,798	372,103
Gain on valuation of derivatives		50,595	51,615
Loss on valuation of investment of associates		(460)	(1,130)
Other comprehensive income of separate account		10,003	4,848
Gain on valuation of held-for-maturity financial assets		49,617	51,423
Gain on revaluation of property and equipment		552,019	548,077
Foreign currency translation adjustments for foreign operations		(954)	495
Remeasurement loss related to defined benefit plan		(13,133)	(12,581)
		1,018,485	1,014,850
Retained earnings:			
Legal reserve		51,250	51,250
Regulatory reserve for loan loss		123,542	113,176
Retained earnings		5,888,063	5,794,188
Voluntary reserve		3,000	3,000
		6,065,855	5,961,614
Non-controlling interests		369,339	364,221
	₩	7,976,472	7,862,541

(Unaudited)

(In millions of won, except shares and par value per share)

32. Equity (cont'd)

(2) Capital stock

Capital stock as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Number of authorized shares		100,000,000 shares	100,000,000 shares
Par value per share in won	₩	5,000	5,000
Number of issued common stocks outstanding		20,500,000 shares	20,500,000 shares
Capital stock	₩	102,500	102,500

(Unaudited)

(In millions of won)

32. Equity (cont'd)

(3) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the three-month periods ended March 31, 2017 and 2016 are as follows:

	For the three-month period ended March 31, 2017									
		Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of investment of associates	Other comprehensive income (expense) of separate account	Gain (loss) on valuation of held-for-maturity financial assets	Gain (loss) on revaluation of property and equipment	Foreign currency translation adjustments for foreign operations	Remeasurement loss related to defined benefit plan	Total
Beginning balance	₩	372,103	51,615	(1,130)	4,848	51,423	548,077	495	(12,581)	1,014,850
Fair value evaluation		12,627	(36,285)	511	7,902	-	-	(304)	(728)	(16,277)
Realization of income		(21,947)	34,939	(8)	(1,102)	(4,010)	-	-	-	7,872
Policyholder's equity adjustment (*)		7,628	-	(10)	-	1,628	5,202	-	-	14,448
Deferred income tax effects		445	326	55	(1,645)	576	(1,260)	950	176	(377)
Non-consolidated adjustments		25	-	-	-	-	-	(1,479)	-	(1,454)
Others		(83)	-	122	-	-	-	(616)	-	(577)
Ending balance	₩	370,798	50,595	(460)	10,003	49,617	552,019	(954)	(13,133)	1,018,485

(*) Allocation to policyholder's equity adjustment in the reporting period.

(Unaudited)

(In millions of won)

32. Equity (cont'd)

(3) Accumulated other comprehensive income (cont'd)

Changes in accumulated other comprehensive income for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

		For the three-month period ended March 31, 2016								
		Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of investment of associates	Other comprehensive income (expense) of separate account	Gain (loss) on valuation of held-for-maturity financial assets	Gain (loss) on revaluation of property and equipment	Foreign currency translation adjustments for foreign operations	Remeasurement loss related to defined benefit plan	Total
Beginning balance	₩	519,249	23,815	65	19,915	37,011	549,387	(122)	(34,121)	1,115,199
Fair value evaluation		188,834	(4,577)	-	21,820	-	-	(1,141)	(293)	204,643
Realization of income		(21,849)	(5,108)	(4)	(5,313)	(3,096)	-	-	-	(35,370)
Policyholder's equity adjustment (*)		(48,175)	-	533	-	1,306	5,192	(97)	-	(41,241)
Deferred income tax effects		(28,786)	2,397	(75)	(3,995)	433	(1,256)	272	70	(30,940)
Non-Consolidated adjustments		(227)	-	1	-	-	-	421	-	195
Others		(967)	-	(481)	-	-	205	109	-	(1,134)
Ending balance	₩	608,079	16,527	39	32,427	35,654	553,528	(558)	(34,344)	1,211,352

(*) Allocation to policyholder's equity adjustment in the reporting period.

(Unaudited)

(in millions of won, except per share data)

32. Equity (cont'd)

(4) Retained earnings

(a) Legal reserve
Legal reserve is restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the Group is required 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 not be allocated in cash and may be used to reduce a deficit or may be transferred to capital based on the decision of board of directors.

(b) The dividends amounting to ₩76,875 million for the Company's shareholders as of December 31, 2016 were paid on March 17, 2017 (₩102,500 million as of December 31, 2015).

(c) Regulatory reserve for loan loss

i) Regulatory reserve for loan losses as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Regulatory reserve for loan losses accumulated	₩	123,542	113,176
To be accumulated (reversed)		(3,864)	10,366
Balance	₩	119,678	123,542

ii) Provision for regulatory reserve for loan losses and income adjusted for regulatory reserve are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Income for the period before regal reserve attributable to controlling interests	₩	181,168	209,405
Provision (reversal of) for regulatory reserve for loan		3,864	(1,144)
Income adjusted for regulatory reserve(*)		185,032	208,261
Basic earnings per share adjusted for regulatory reserve in won		9,026	10,159

(*) Net income adjusted for regulatory reserve above is non-KIFRS financial information. The adjustment amount is calculated under the assumption that provision for regulatory reserve is reflected on the current net income without considering policyholders' equity adjustment and deferred tax effect.

(In millions of won)

33. Premium income

Premium income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	591,282	590,140
Death		1,103,077	1,164,532
Endowment		231,879	265,550
		1,926,238	2,020,222
Group insurance:			
Pure protection		26,606	25,672
Savings		2,819	2,964
		29,425	28,636
	₩	1,955,663	2,048,858

34. Reinsurance ceded

(1) Reinsurance assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Reinsurance accounts receivable	₩	24,726	49,568
Reinsurance assets:			
Reserve for unearned premium		4,137	4,011
Reserve for outstanding claims		2,979	3,063
Incurred but not reported		11,960	11,782
		19,076	18,856
	₩	43,802	68,424
Reinsurance accounts payable	₩	25,703	44,137

(Unaudited)

(In millions of won)

34. Reinsurance ceded (cont'd)

(2) Transactions with reinsurance companies incurred for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017			
		Reinsurance expense	Reinsurance claim revenue	Reinsurance commission revenue	Profit (loss) from reinsurance asset
Individual insurance:					
Domestic	₩	25,008	17,570	6,441	(15)
Overseas		397	222	58	61
		25,405	17,792	6,499	46
Group insurance:					
Domestic		298	435	-	174
	₩	25,703	18,227	6,499	220

		For the three-month period ended March 31, 2016			
		Reinsurance expense	Reinsurance claim revenue	Reinsurance commission revenue	Profit (loss) from reinsurance asset
Individual insurance:					
Domestic	₩	21,996	15,949	6,079	(320)
Overseas		386	196	128	(22)
		22,382	16,145	6,207	(342)
Group insurance:					
Domestic		289	248	-	(121)
	₩	22,671	16,393	6,207	(463)

35. Interest income

Interest income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Cash and due from banks	₩	5,367	6,417
Trading assets		15,148	19,592
Available-for-sale financial assets		110,629	137,277
Held-to-maturity financial assets		244,787	234,019
Loans		236,090	235,022
Derivatives		22,436	23,528
Others		1,081	1,499
	₩	635,538	657,354

(Unaudited)

(In millions of won)

36. Gain on valuation and disposal of financial instruments

Gain on valuation and disposal of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Financial assets designated at fair value through profit or loss:			
Gain on valuation	₩	2,049	2,321
Gain on disposal		1,366	2,991
Trading assets:			
Gain on valuation		14,639	28,504
Gain on disposal		11,047	25,134
Available-for-sale financial assets:			
Gain on disposal		64,036	52,042
Held-to-maturity financial assets:			
Gain on disposal		676	17
Loans:			
Gain on disposal		131	18
Gain on reversal of allowance for bad debts		829	-
Financial liabilities designated at fair value through profit or loss:			
Gain on valuation		14,381	21,822
Gain on disposal		1,878	543
Trading liabilities:			
Gain on valuation		3,225	1,263
Gain on disposal		4,145	638
Derivatives:			
Gain on valuation		1,101,428	352,496
Gain on transaction		109,696	57,564
	₩	1,329,526	545,353

(Unaudited)

(In millions of won)

37. Fees and commission income

Fee and commission income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Brokerage commissions	₩	18,836	19,467
Underwriting commissions		3,970	1,646
Credit placement fees		5,362	4,282
Asset management fees		2,393	4,026
Brokerage commissions on collective investment securities		1,867	1,984
Sales commissions on derivatives-combined securities		297	259
Others		17,738	21,994
	₩	50,463	53,658

38. Dividend income

Dividend income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Trading assets:			
Equity securities	₩	127	934
Available-for-sale financial assets:			
Equity securities		38,010	40,447
Equity investments		-	2,886
Beneficiary certificates		63,921	48,050
Overseas securities		13,260	12,214
		115,191	103,597
	₩	115,318	104,531

(Unaudited)

(In millions of won)

39. Other operating income

Other operating income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Merchandise sales	₩	155,789	157,368
Product sales		1,511	1,703
Other sales		26,438	23,014
Other operating profits		5,961	937
	₩	189,699	183,022

40. Insurance claims paid

The Group's insurance claims paid consist of benefit payments, surrenders for insurance and dividend expenses.

(1) Benefit payments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	37,311	33,231
Death		121,337	135,010
Endowment		31,958	20,959
		190,606	189,200
Group insurance:			
Pure protection		22,324	17,750
Savings		100	45
		22,424	17,795
	₩	213,030	206,995

(Unaudited)

(In millions of won)

40. Insurance claims paid (cont'd)

(2) Surrenders for insurance for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	495,311	477,709
Death		525,026	495,371
Endowment		145,273	95,151
		1,165,610	1,068,231
Group insurance:			
Pure protection		17,752	19,179
Savings		1,929	1,163
		19,681	20,342
	₩	1,185,291	1,088,573

(3) Dividend expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	4,838	5,006
Death		377	599
Endowment		207	146
		5,422	5,751
Group insurance:			
Pure protection		591	504
Savings		10	-
		601	504
	₩	6,023	6,255

(Unaudited)

(In millions of won)

41. Operating and administrative expenses

Operating and administrative expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Policy acquisition costs:			
Agent commission	₩	113,153	133,821
Branch office operation		15,453	16,087
Sales promotion		20,707	19,699
Advertising expense		2,491	2,280
Others		45,556	47,110
		197,360	218,997
Maintenance expenses:			
Wages and salaries		45,898	47,449
Bonuses		17,254	16,795
Employment benefits		13,281	13,888
Severance benefits		8,837	10,055
Taxes and dues		24,688	25,850
Office rent		16,294	16,554
Depreciation		4,838	5,211
Commission		14,269	14,713
Information technology		2,737	2,287
Collection		1,614	1,616
Others		7,376	7,935
		157,086	162,353
Deferred acquisition cost		(157,784)	(173,473)
	₩	196,662	207,877

(Unaudited)

(In millions of won)

42. Asset management expenses

Asset management expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Wages and salaries	₩	5,021	4,932
Bonuses		2,046	1,815
Severance benefits		913	873
Employment benefits		1,195	1,115
Communication		578	592
Repairs and maintenance		28	33
Outsourcing fee		4,244	4,169
Commission		8,409	7,973
Taxes and dues		199	199
Depreciation		151	182
Others		867	1,364
	₩	23,651	23,247

43. Interest expenses

Interest expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Borrowings	₩	6,791	10,915
Derivatives		16,485	30,973
Others		2,623	2,806
	₩	25,899	44,694

(Unaudited)

(In millions of won)

44. Loss on valuation and disposal of financial instruments

Loss on valuation and disposal of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Financial assets designated at fair value through profit or loss:			
Loss on valuation	₩	428	3,948
Loss on disposal		662	308
Trading assets:			
Loss on valuation		5,752	2,869
Loss on disposal		12,969	14,465
Available-for-sale financial assets:			
Impairment loss		15,492	2,248
Loss on disposal		21,919	19,572
Loans:			
Provision for loan losses		-	606
Loss on disposal		79	-
Other receivables:			
Provision for other receivables		738	200
Financial liabilities designated at fair value through profit or loss:			
Loss on valuation		28,767	22,348
Loss on disposal		16,315	12,118
Trading liabilities:			
Loss on valuation		5,966	7,468
Loss on disposal		5,993	9,872
Derivatives:			
Loss on valuation		120,115	94,382
Loss on disposal		66,337	110,298
	₩	301,532	300,702

(Unaudited)

(In millions of won)

45. Other operating expenses

Other operating expenses for the three-month periods ended March 31, 2017 and 2016 are summarized as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Depreciation of investment properties	₩	2,449	2,434
Amortization of intangible assets		2,319	2,329
Fees and commission expense		5,705	5,211
Cost of sales-merchandise		106,527	107,734
Cost of sales-service		28,923	25,572
Cost of sales-products		885	883
Cost of other goods sold		3,771	3,290
General and administrative expenses		105,210	95,472
Insurance discount		324	316
Others		5,119	500
	₩	261,232	243,741

(Unaudited)

(In millions of won and in thousands of USD, JPY, EUR, GBP)

46. Foreign currency translation

(1) Foreign currency denominated assets and liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

	March 31, 2017			December 31, 2016		
	Amount of foreign currency		Amount of translation	Amount of foreign currency		Amount of translation
Foreign cash and due from banks						
USD	686,318	₩	767,370	462,514		558,654
JPY	122,345		1,222	36,338		377
EUR	19,022		22,685	25,160		31,893
Others	41,856		46,716	34,895		42,171
Financial assets designated at fair value through profit or loss						
USD	660,661		737,365	534,511		645,957
JPY	504,460		5,037	505,445		5,241
EUR	35,673		42,544	35,651		45,191
Available-for-sale financial assets						
USD	2,707,583		3,028,161	2,324,474		2,806,915
JPY	1,245,871		12,440	1,199,860		12,440
EUR	113,348		135,180	109,111		138,402
Others	3,798		5,288	-		-
Held-to-maturity financial assets						
USD	8,367,862		9,358,617	8,035,454		9,704,418
Loans						
USD	36,300		40,598	18,000		21,739
JPY	3,014,477		30,100	2,903,151		30,100
Other financial assets						
USD	162,072		181,255	254,662		307,645
JPY	12,702		128	13,430		139
EUR	1,060		1,198	1,322		1,677
Others	-		-	16,847		2,625
Financial assets total						
USD	12,620,796	₩	14,113,366	11,629,615		14,045,328
JPY	4,899,855		48,927	4,658,224		48,297
EUR	169,103		201,607	171,244		217,163
Others	45,654		52,004	51,742		44,796
Other financial liabilities						
USD	831,699	₩	928,259	723,557	₩	874,419
JPY	32,618		326	35,003		363
EUR	2,590		3,088	2,235		2,833
Others	6,073		6,778	8,643		10,445

(Unaudited)

(In millions of won)

46. Foreign currency translation (cont'd)

(2) Gain (loss) on foreign currency transactions for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Gain on foreign currency translation	₩	73,166	26,620
Gain on foreign currency transaction		6,724	27,815
	₩	79,890	54,435
Loss on foreign currency translation	₩	1,050,719	249,602
Loss on foreign currency transaction		26,058	16,163
	₩	1,076,777	265,765

47. Non-operating income and expenses

(1) Non-operating income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Valuation of investment in joint venture and associates	₩	5,146	4,891
Disposal of investment in joint venture and associates		430	4
Disposal of investment properties		-	797
Disposal of property and equipment		5	34
Disposal of intangible assets		66	-
Miscellaneous gains		6,106	10,748
	₩	11,753	16,474

(Unaudited)

(In millions of won)

47. Non-operating income and expenses (cont'd)

(2) Non-operating expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Valuation of investment in joint venture and associates	₩	-	107
Disposal of investment in joint venture and associates		459	-
Disposal of investment properties		-	182
Disposal of property and equipment		55	99
Impairment of property and equipment		-	10
Impairment of intangible assets		1	99
Donations		5,483	6,185
Miscellaneous losses (*)		57,868	995
	₩	63,866	7,677

(*) Miscellaneous losses as of March 31, 2017 are related to additional reserves for annuity insurance.

48. Income tax expenses

(1) Income tax expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Current income tax expenses	₩	24,239	31,471
Changes in deferred income tax due to temporary differences		35,455	68,023
Income tax expenses recognized in other comprehensive income		(1,551)	(31,520)
Additional payment (refund) of income taxes		292	(381)
Income tax expenses	₩	58,435	67,593

(Unaudited)

(In millions of won, except insurance commitment information)

48. Income tax expenses (cont'd)

(2) Income tax expenses calculated by multiplying net income before tax with the tax rate for the three month periods ended March 31, 2017 and 2016 as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Income before income taxes	₩	248,085	286,986
Income taxes at statutory tax rates		59,759	73,780
Adjustments:			
Non-deductible expense (non-taxable income)		(1,616)	(5,806)
Additional payment (refund) of income taxes		292	(381)
Income tax expenses	₩	58,435	67,593
Effective tax rate		23.55%	23.55%

49. Employee benefits

Details of employee benefits for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Short-term and other long-term employee benefits	₩	126,572	124,088
Post-employment benefits(*)		13,981	15,256

(*) Post-employment include ₩1,598 million and ₩1,913 million of termination benefits for the three-month periods ended March 31, 2017 and 2016, respectively, and ₩3,064 million and ₩2,240 million of defined contribution plans for the three-month periods ended March 31, 2017 and 2016, respectively.

50. Commitments and contingencies

(1) Legal contingencies outstanding

There are 140 litigations in which the Group is named including the ones for the payments for insurance claims with litigation costs amounting to ₩19,965 million as of March 31, 2017. Furthermore, there are 30 litigations where the Group is the plaintiff with litigation costs amounting to ₩8,488 million. The outcome of litigations cannot be predicted as of March 31, 2017. The Group has appropriated reserve of ₩6,125 million for the payment of above insurance claim, and provisions of ₩473 million for the payment of general claims.

(Unaudited)

(In millions of won, except insurance commitment information)

50. Commitments and contingencies (cont'd)

(2) Insurance commitments

The contract amounts under the insurance contracts in the general and separate accounts as of March 31, 2017 are as follows:

	Number of contract		Total contract amount
General accounts	8,554,014	₩	311,335,520
Separate accounts	759,693		4,193,168
	9,313,707	₩	315,528,688

50. Commitments and contingencies (cont'd)

(3) Reinsurance agreements

The reinsurance agreements of individual and group insurance as of March 31, 2017 are as follows:

Reinsurance method	Reinsurance company	Ceding ratio (%)	Nature of risk
Surplus	SCOR Reinsurance Asia-Pacific	100	Risk from excess number of contracts with individuals with high-risk occupations
Surplus	SCOR Reinsurance Asia-Pacific	100	Risk from excessive contracts
Surplus	Korean Re	100	Kyobo Big Love guarantee insurance
Surplus, quota share	Munich Re	60	Risk from excessive contracts
Surplus, quota share	Korean Re	40	Risk from excessive contracts
Quota share	GeneralCologne Re	10	Individual medical insurance
Quota share	GeneralCologne Re	10	Accidental insurance
Quota share	GeneralCologne Re	30	CI whole life Reinsurance
Quota share	GeneralCologne Re	30	Second CI guarantee insurance
Quota share	GeneralCologne Re	30	SI insurance
Quota share	Hannover Re	10	CI reinsurance
Quota share	Hannover Re	10	Direct health insurance
Quota share	Hannover Re	30	Kyobo cancer insurance
Quota share	Hannover Re	80	Facultative reinsurance
Quota share	Hannover Re	10 ~ 25	Individual medical insurance
Quota share	Korean Re	10	CI whole life reinsurance
Quota share	Korean Re	30	Kyobo cancer insurance
Quota share	Korean Re	50	SI insurance
Quota share	Korean Re	80	Facultative reinsurance
Quota share	Korean Re	50	Mortality (term insurance), injuries (children, accident insurance), hospitalization/surgery (children insurance), diagnosis (children, accident insurance)
Quota share	Korean Re	20 ~ 25	Individual medical insurance
Quota share	Meiji Yasuda Life Insurance	2	Whole life insurance
Quota share	Meiji Yasuda Life Insurance	25	Direct accidental insurance
Quota share	Munich Re	10	CI reinsurance
Quota share	Munich Re	30	LTC (silver care insurance)
Quota share	Munich Re	30	Premier CI insurance
Quota share	Munich Re	80	Facultative reinsurance
Quota share	RGA Re	20	Kyobo cancer Insurance
Quota share	RGA Re	50	Mortality (term insurance and whole life insurance), diagnosis (cancer, insurance for lifestyle disease)
Quota share	RGA Re	80	Facultative reinsurance
Quota share	SCOR Reinsurance Asia-Pacific	10	Individual medical insurance
Quota share	SCOR Reinsurance Asia-Pacific	15	CI reinsurance
Quota share	SCOR Reinsurance Asia-Pacific	15	Direct health insurance
Quota share	SCOR Reinsurance Asia-Pacific	80	Facultative reinsurance
Quota share	SCOR Reinsurance Asia-Pacific	30 ~ 60	Top Class cancer insurance

(Unaudited)

(In millions of won)

50. Commitments and contingencies (cont'd)

(4) Purchase commitment of commercial paper

The Group provides ABCP purchase commitments amounting to ₩497,400 million and ₩402,700 million as of March 31, 2017 and December 31, 2016, respectively and the details are as follows:

		Amount	Period
WHITE GLORY Co., Ltd.	₩	10,500	2013.09.03~2018.09.21
RUCHINAKISS 1st Co., Ltd.		37,000	2013.10.16~2018.12.21
ABFT 3st Co., Ltd.		32,000	2013.10.28~2018.12.21
IBS 12st Co., Ltd.		41,000	2013.09.17~2018.09.21
LISBOA 3rd L.L.C.		42,000	2013.09.24~2018.12.21
JBDPROJECT 2nd Co., Ltd.		41,000	2013.10.07~2018.12.21
ABFT 1st Co., Ltd.		37,000	2013.09.02~2018.09.21
ABFT 2nd Co., Ltd.		37,000	2013.09.13~2018.09.21
S-Class Dongnam 1st.		25,700	2015.06.17~2017.12.18
S-Class Dongnam 2nd		19,400	2015.06.17~2017.12.18
Hanam misa central 2nd		10,800	2016.03.30~2019.11.05
ABFT Infra Development Co., Ltd.		23,000	2015.04.30~2022.04.29
MS Sejong 3rd Co., Ltd.		10,000	2014.05.27~2017.08.24
Wonju Dream The One		40,000	2016.10.24~2019.03.27
Bluedream 8th Co., Ltd.		61,000	2017.02.03~2019.02.28
KONEMPO Co, Ltd.		30,000	2017.02.21~2020.02.21
	₩	497,400	

(Unaudited)

(In millions of won)

50. Commitments and contingencies (cont'd)

(5) Stand-by commitments

The Group provides SPC with guarantee of debts (purchase commitment etc.) of ₩497,600 million (December 31, 2016: ₩533,500 million) for the developer's projects on Songdo International City development as of March 31, 2017 and the details are as follows:

Company	Trade Opponent		Amount
KYOBO SECURITIES Co., Ltd.	BZ1-1st.	₩	50,000
	K-1 Alpha		50,000
	Sky 1st.		24,800
	Songdo Global City 1st, 2nd		65,000
	Titan 1st.		100,000
	Invest Golden Haver		11,200
	LuckyStrike 8th, Utopia 20th		50,000
	Utopia 15th		30,000
	Golden bear 1st.		22,000
	District R-1		10,000
	District S-1		14,800
	District R-2		5,000
	District C-7		5,000
	TH. 8th		20,000
	IK. 3rd		5,000
	Pro Best Ace		20,800
	Square7 3rd		5,000
	IB Prime 1		2,000
	Atlantis Gimhae		7,000
		₩	497,600

(6) Other commitments as of March 31, 2017 are as follows:

		Amount
Loan commitments	₩	1,896,762
Investment commitments		2,069,081
	₩	3,965,843

(Unaudited)

(In millions of won)

50. Commitments and contingencies (cont'd)

(7) Overdraft commitments, etc.

The commitments and guarantees as of March 31, 2017 are as follows:

			Amount	Counter party	Descriptions
Kyobo Life Insurance Co., Ltd.	Overdraft commitments	₩	290,000	Standard Chartered Bank, KEB Hana Bank, SHINHAN Bank, Citibank Korea Inc.	Bank overdraft
Kyobo Securities Co., Ltd.	Overdraft commitments		96,000	Woori Bank, Standard Chartered Bank Korea Limited, BUSAN BANK, SHINHAN Bank, KEB Hana Bank, Kookmin Bank	Bank overdraft, etc
	Limit commitments		1,020,000	Korea Securities Finance Corp	CP issue limit commitments, etc
Kyobo Book Center Co., Ltd.	Overdraft commitments		1,000	Kookmin Bank	Bank overdraft
Kyobo Hottracks Co., Ltd.	Loan line commitments		17,000	Woori Bank, SHINHAN Bank, KEB Hana Bank, Kookmin Bank	Loan line commitments
		₩	1,424,000		

(8) Securities lending and borrowing

Securities lending and borrowing as of March 31, 2017 are as follows:

	Type		Amount	Valuation standard
Securities lent	Debt securities	₩	412,874	Fair value
Securities borrowed	Debt securities		2,692,997	Fair value

Securities lending transaction is a transaction that transfers the ownership of the same amount and kind of securities after a certain period of time and continues to be recognized as an asset of the Group because it does not meet the conditions for the removal of transfer of financial assets.
The Group executes loan transaction and keeps memorandum notes on borrowed securities from Korea Securities Finance Corporation and Korea Securities Depository. The Group keeps accounts for the transaction as financial liabilities designated at fair value through profit or loss when it sells borrowed securities or when it makes a short sale of the borrowed securities.

51. Related parties

(1) The related parties as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017	Location
Joint Ventures	
Kyobo AXA Investment Managers Co., Ltd., Saeng bo Estate Trust Co., Ltd	Korea
Associates	
A&D Credit Information Co., Ltd., Trus Y 7 REIT Co., Ltd., KoFC KyoboHanhwa2010-6, Kyobo 5 Special Purpose Acquisition Company, Hwaseong-Jeongnam General Industry Complexes Co., Ltd., Kyobo BNK Special Purpose Acquisition , I2S Korea Co., Ltd. Kyobo 7 Special Purpose Acquisition Company (*)	Korea
Others	
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture, Lifenet Life Insurance Co., Ltd.	Korea

(*) Kyobo 7 Special Purpose Acquisition Company was newly included in the related party for the three-month ended March 31, 2017 and Kocref No. 14 was excluded from related parties for the three-month ended March 31, 2017.

December 31, 2016	Location
Joint Ventures	
Kyobo AXA Investment Managers Co., Ltd., Saeng bo Estate Trust Co., Ltd	Korea
Associates	
A&D Credit Information Co., Ltd., Kocref No. 14, Trus Y 7 REIT Co., Ltd., KoFC KyoboHanhwa2010-6, Kyobo 5 Special Purpose Acquisition Company, Hwaseong-Jeongnam General Industry Complexes Co., Ltd., Kyobo BNK Special Purpose Acquisition Company(*), I2S Korea Co., Ltd.	Korea
Others	
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture, Lifenet Life Insurance Co., Ltd.	Korea

(*) Kyobo BNK Special Purpose Acquisition Group was newly included in the related party for the year ended 2016 and Kyobo 4 Special Purpose Acquisition Company and Mastern 2 REIT were excluded from related parties for the year ended 2016.

(Unaudited)

(In millions of won)

51. Related parties (cont'd)

(2) Related parties loans and liabilities

Significant balances with the related parties as of March 31, 2017 and December 31, 2016 are summarized as follows:

Related party	Account		March 31, 2017	December 31, 2016
Associates:				
A&D Credit Information Co., Ltd.	Accounts payable	₩	741	742
	Retirement pension (*)		1,013	1,009
Kyobo 5 Special Purpose Acquisition Company	Loans		831	831
Kyobo BNK Special Purpose Acquisition	Loans		809	809
Joint Ventures				
Kyobo AXA Investment Managers Co., Ltd.	Accounts payable		764	93
	Leasehold deposits received		784	784
	Retirement pension (*)		219	218
	Deposits		-	4,321
Saengbo Real Estate Trust Co., Ltd.	Accounts receivable		1	3
	Accounts payable		1	2
	Retirement pension (*)		3,507	3,491
Others:				
Kyobo Foundation Building	Leasehold deposits		117	117
Daesan Foundation For Rural Culture & Society	Retirement insurance (*)		169	169
Daesan Foundation For Culture	Leasehold deposits received		1,346	1,346
	Accounts payable		-	15
	Retirement pension (*)		321	321
	Credit purchase		-	1
Kyobo Foundation For Education & Culture	Retirement pension (*)		250	248
Lifenet Life Insurance Co., Ltd.	Accounts payable		-	1
Key management	Loans		43	57

(*) Retirement insurance and pension are reserve for policyholder in separate account liabilities.

(Unaudited)

(In millions of won)

51. Related parties (cont'd)

(3) Significant transactions with the related parties

Significant transactions with the related parties for the three-month periods ended March 31, 2017 and 2016 are as follows:

Related party	Account		2017 Revenues	2017 Expenses	2016 Revenues	2016 Expenses
Associates:						
Kocref No.14 REIT Co., Ltd	Dividend income	₩	60	-	419	-
	Reversal of loan losses		-	-	1	-
	Interest income		-	-	258	-
A&D Credit Information Co., Ltd.	Dividend income		59	-	49	-
	Claims paid(*)		-	5	-	7
	Operating and Administrative expenses		-	71	-	53
	Asset management expenses		-	1,918	-	1,883
Trus Y 7 REIT CO., Ltd.	Dividend income		-	-	27	-
KoFC KyoboHanhwa2010-6	Dividend income		-	-	1,855	-
Mastern 2 REIT	Interest income		-	-	643	-
	Reversal of loan losses		-	-	11	-
Joint Ventures:						
Saengbo Real Estate Trust Co., Ltd.	Dividend Income		5,000	-	3,000	-
	Premium income(*)		1	-	1	-
	Claims paid(*)		-	16	-	14
Kyobo AXA Investment Managers Co., Ltd.	Premium income(*)		2	-	2	-
	Dividend Income		3,750	-	3,000	-
	Rental income		348	-	348	-
	Commission income		-	-	162	-
	Merchandise sales		-	-	1	-
	Other operating income		1	-	1	-
	Claims paid(*)		-	1	-	1
	Asset management expenses		-	764	-	988
Others:						
Kyobo Foundation For Education & Culture	Non-operating expenses		-	271	-	245
	Premium income(*)		-	1	-	1
Kyobo Foundation Building	Service commission		109	-	102	-
	Rent expense		-	791	-	102
Daesan Foundation For Rural Culture & Society	Non-operating expenses		-	100	-	100
	Claims paid(*)		-	1	-	1

(Unaudited)

(In millions of won)

51. Related parties (cont'd)

(3) Significant transactions with the related parties (cont'd)

Significant transactions with the related parties for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

		2017		2016	
Related party	Account	Revenues	Expenses	Revenues	Expenses
Daesan Foundation For Culture	Premium income(*)	2	-	1	-
	Rental income	14	-	14	-
	Cost of sales	-	2	-	2
	Claims paid(*)	-	1	-	1
	Non-operating expenses	-	720	-	550
	Operating and administrative expenses	-	15	-	18

(*) Premium income and claims paid belong to profit or loss in separate account.

(4) The fund transactions with the related parties for the three-month periods ended March 31, 2017 are as follows:

		For the three-month period ended March 31, 2017		
Related party		Loan transaction		Collection of investment
		Lending	Collection	
Kocref No.14 REIT Co., Ltd.	₩	-	-	(4,607)

There are no fund transactions with the related parties for the three-month periods ended March 31, 2016.

(5) The Group concluded that the key management includes executives and outside directors who have authority and responsibilities for decision making of the business plan, operations and control over the Group. Key management compensation for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Long and short-term employee benefits	₩	8,351	8,928
Retirement benefits		1,771	1,483
	₩	10,122	10,411

(Unaudited)

(In millions of won, expect per share data)

51. Related parties (cont'd)

(6) The above outstanding balances and transactions have arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

52. Earnings per share

Basic earnings per share for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Net income available for common stock (*)	₩	181,168	209,405
Weighted average number of common shares outstanding		20,500,000 shares	20,500,000 shares
Earnings per share in won		8,837	10,215

(*) Net income available for common stock is relevant to the Group's shares.

The Group's basic earnings per share and diluted earnings per share are the same since there are no potential diluted shares for the three-month periods ended March 31, 2017 and 2016.

53. Statement of cash flows

Significant non-cash activities for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Changes in valuation gain (loss) on available-for-sale financial assets	₩	(1,331)	89,057
Replacement to non-current assets held for sale		4,954	-
Changes in valuation loss on held-to-maturity financial assets		(1,805)	(1,357)
Changes in valuation gain (loss) on revaluation of property and equipment		3,942	4,141
Changes in valuation gain (loss) on derivatives for cash flow hedging purpose		(1,021)	(7,289)
Other comprehensive income in separate accounts		5,155	12,512

(Unaudited)

(In millions of won)

54. Interests in unconsolidated structured entities

(1) The nature, purposes and activities of the unconsolidated structured entities which the Group had interest in as of March 31, 2017, and how these structured entities are financed were summarized as follows:

Nature	Purposes	Activities	Financing methods
Asset securitization	(1) Encashment by transferring securitized assets (2) Investment fee collection by providing credit offering and ABCP purchase commitments to SPC	(1) Carrying out a plan to securitized assets (2) Taking over and collecting securitized assets (3) Issuing and redeeming ABS and ABCP	(1) Issuance of ABS and ABCP
Project financing	(1) Project financing loans for social overhead capital(SOC) and real estate (2) Lending loans to shipbuilding/airplane SPC	(1) Constructing social overhead capital and real estate (2) Manufacturing and purchasing shipbuilding/airplanes	(1) Entering into loan commitments, credit offering and investment commitments (with credit line)
Investment fund	(1) Investment in beneficiary certificates (2) Investment in PEF and cooperatives	(1) Management and operation of fund assets (2) Payment of fund management fees and sharing of profits from asset management	(1) Sales of beneficiary certificates (2) Investment by general managers and limited liability partners

(Unaudited)

(In millions of won)

54. Interests in unconsolidated structured entities (cont'd)

(2) Total assets of the unconsolidated structured entities, carrying value of equity and maximum exposure to loss related to the Group's interests in unconsolidated structured entities as of March 31, 2017 are as follows:

Type		Asset-backed securitization	Project financing	Investment fund	Total
Total assets of the unconsolidated structured entities		18,400,960	64,377,872	64,094,813	146,873,645
Carrying value of assets:					
Loans	₩	206,887	4,952,614	-	5,159,501
Trading assets		-	120,576	420,476	541,052
Available-for-sale financial assets		1,390,159	4,481,497	1,513,106	7,384,762
Held-to-maturity financial assets		950,210	50,023	-	1,000,233
Other assets		5,424	15,209	-	20,633
		2,552,680	9,619,919	1,933,582	14,106,181
Maximum exposure to loss (*)		2,552,680	11,984,645	1,933,582	16,470,907
Deduction method of maximum exposure		Purchase commitment Credit offering	Loan commitment Investment commitment	Loan commitment	

(*) The maximum amounts exposed to losses included investment assets in the consolidated financial statements.

(3) As of March 31, 2017, there was no financial support or any other support provided for consolidated or unconsolidated structured entities without contractual consideration.

Independent Auditors' Review Report

The Board of Directors and Shareholders
Kyobo Life Insurance Co., Ltd.

Reviewed financial statements

We have reviewed the accompanying condensed interim financial statements of Kyobo Life Insurance Co., Ltd. (the "the Company"), which comprise the condensed interim statement of financial position as of March 31, 2017, the condensed interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 *Interim Financial Reporting,* 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.

Auditors' review responsibility

Our responsibility is to issue a report on these condensed interim financial statements based on our reviews. We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements 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 auditing standards generally accepted in the Republic of Korea 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 reviews, nothing has come to our attention that causes us to believe that the accompanying condensed separate interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

Other matters

The condensed separate interim statements of comprehensive income, changes in equity and cash flows for the three-month period ended March 31, 2016 were reviewed by other auditors whose report thereon dated May 17, 2016, expressed that nothing came to their attention that caused them to believe that the accompanying condensed separate interim financial information as of March 31, 2016 was not prepared, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

The separate statement of financial position of the Company as of December 31, 2016, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by other auditors, whose report thereon dated March 2, 2017, expressed an unqualified opinion. The accompanying statement of financial position of the Company as of December 31, 2016, presented for comparative purposes, is not different from that audited by other auditors in all material respects.

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
May 12, 2017

This report is effective as of May 12, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Financial Position
As of the March 31, 2017 and December 31, 2016

(Unaudited)

(In won)	***Note***		**2017**	**2016**
Assets				
Cash and due from banks	4,11,12	₩	1,332,972,444,225	1,017,859,390,284
Trading assets	5,11,12		541,051,475,502	750,778,580,555
Derivative assets	11,12,26		363,830,092,458	31,711,699,500
Available-for-sale financial assets	6,11,12		20,662,248,391,037	20,826,260,686,851
Held-to-maturity financial assets	7,11,12		26,978,223,369,179	27,187,525,367,649
Loans	8,11,12		17,768,067,062,904	17,893,140,261,588
Other receivables	9,11,12		1,387,670,633,644	1,385,398,187,770
Investments in associates	10,12		727,739,600,445	733,523,232,973
Investment property	13		1,192,012,970,662	1,165,781,961,174
Property and equipment	14		958,573,328,333	993,053,111,605
Intangible assets	15		19,682,269,646	20,681,264,701
Deferred acquisition costs	16		1,741,006,884,358	1,785,251,206,390
Current tax assets	44		33,762,738,144	52,939,940,125
Other assets	17		91,524,936,923	46,558,527,938
Non-current assets as held for sale	18		4,954,179,801	-
Separate account assets	27		18,459,802,210,716	17,782,222,549,284
Total assets		₩	92,263,122,587,977	91,672,685,968,387
Liabilities				
Liabilities under insurance contracts	19,21	₩	64,436,050,631,790	63,633,139,498,267
Policyholders' equity adjustment	20		433,762,454,162	447,612,302,540
Derivative liabilities	11,12,26		152,810,577,917	862,349,060,802
Other financial liabilities	11,12,22		448,028,141,942	551,342,217,888
Provisions	23		16,510,807,984	16,298,782,509
Defined benefit obligation	24		32,463,321,353	17,926,244,273
Deferred tax liabilities	44		317,308,946,066	277,355,188,378
Other liabilities	25		263,208,525,924	208,415,203,472
Separate account liabilities	27		18,631,995,589,627	18,233,999,902,132
Total liabilities			84,732,138,996,765	84,248,438,400,261
Equity				
Capital stock	28		102,500,000,000	102,500,000,000
Capital surplus	28		431,858,927,596	431,858,927,596
Capital adjustments	28		(8,994,796,867)	(8,994,796,867)
Accumulated other comprehensive income	28		977,994,338,378	973,715,695,927
Retained earnings	28		6,027,625,122,105	5,925,167,741,470
Total equity			7,530,983,591,212	7,424,247,568,126
Total equity and liabilities		₩	92,263,122,587,977	91,672,685,968,387

See accompanying notes to the condensed separate interim financial statements.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Comprehensive Income
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)	***Note***		**2017**	**2016**
Operating revenues				
Premium income	29	₩	1,945,196,432,971	2,043,270,390,961
Reinsurance income	30		24,906,079,145	22,569,293,091
Interest income	31		584,181,020,631	598,750,881,007
Gain on valuation and disposal of financial instruments	32		1,072,579,814,608	301,985,205,162
Gain on foreign currency transaction	42		6,743,682,122	14,313,823,594
Fees and commission income	33		7,716,961,886	6,044,591,867
Dividend income	34		114,071,131,704	99,669,115,790
Rental income			23,617,251,784	22,796,879,895
Separate account commissions earned			206,685,121,902	211,493,321,386
Separate account income	27		59,570,174,918	42,947,911,012
Other operating income	35		74,821,241	72,905,047
			4,045,342,492,912	3,363,914,318,812
Operating expenses				
Provision for liabilities under insurance contracts			777,966,477,627	982,652,227,953
Insurance claims paid	36		1,403,348,786,859	1,301,470,877,160
Reinsurance premium expenses	30		25,618,773,769	23,092,013,313
Insurance operating expenses	37		210,269,789,550	214,652,236,784
Amortization of deferred acquisition costs	16		201,660,239,078	220,059,694,107
Investment administrative expenses	38		33,431,576,590	32,061,354,201
Interest expenses	39		2,670,471,707	4,806,954,773
Loss on valuation and disposal of financial instruments	40		59,087,210,179	50,216,797,562
Loss on foreign currency transaction	42		989,542,526,531	237,740,129,061
Separate account commissions			6,130,985,506	8,203,252,792
Separate account expenses	27		59,570,174,918	42,947,911,012
Other operating expenses	41		4,340,906,715	4,222,831,602
			3,773,637,919,029	3,122,126,280,320
Operating income			271,704,573,883	241,788,038,492
Non-operating income	43		20,982,527,222	23,758,951,726
Non-operating expenses	43		63,165,510,086	8,202,536,035
Net income before income tax expenses			229,521,591,019	257,344,454,183
Income tax expenses	44		50,189,210,384	57,895,057,001
Net income for the period		₩	179,332,380,635	199,449,397,182

See accompanying notes to the condensed separate interim financial statements.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Comprehensive Income, continued
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)	***Note***		**2017**	**2016**
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Revaluation of property, plant and equipment		₩	3,747,431,429	3,935,483,571
Defined benefit plan actuarial losses			(551,332,037)	(221,562,169)
			3,390,880,709	3,918,982,560
Items that are or may be reclassified subsequently to profit or loss:				
Gain(loss) on valuation of available-for-sale financial assets			(1,563,270,385)	88,457,718,031
Loss on valuation of held-to-maturity financial assets			(1,805,377,815)	(1,356,912,923)
Gain on valuation of investments in associates			317,015,738	1,097,819,472
Loss on valuation of derivative instruments			(1,020,552,070)	(7,288,786,390)
Other comprehensive gain in separate accounts			5,154,727,591	12,512,077,188
			(1,259,672,584)	92,039,181,378
Other comprehensive income for the period, net of income tax			4,278,642,451	97,135,836,780
Total comprehensive income for the period		₩	183,611,023,086	296,585,233,962
Earnings per share				
Basic and diluted earnings per share	48	₩	8,748	9,729

See accompanying notes to the condensed separate interim financial statements.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Changes in Equity
For the three-month period ended March 31, 2016

(Unaudited)

(In won)	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2016	₩ 102,500,000,000	431,858,927,596	(8,994,796,867)	1,064,580,846,430	5,545,858,016,032	7,135,802,993,191
Total comprehensive income for the period	-	-	-	97,135,836,780	199,449,397,182	296,585,233,962
Profit for the period	-	-	-	-	199,449,397,182	199,449,397,182
Other comprehensive income	-	-	-	97,135,836,780	-	97,135,836,780
Valuation of available-for-sale financial assets	-	-	-	88,457,718,031	-	88,457,718,031
Loss on valuation of held-to-maturity financial assets transferred from available-for-sale financial assets	-	-	-	(1,356,912,923)	-	(1,356,912,923)
Valuation of investments in associates	-	-	-	1,097,819,472	-	1,097,819,472
Valuation of derivative instruments	-	-	-	(7,288,786,390)	-	(7,288,786,390)
Other comprehensive income in separate accounts	-	-	-	12,512,077,188	-	12,512,077,188
Gain on revaluation of property and equipment	-	-	-	3,935,483,571	-	3,935,483,571
Remeasurement loss related to defined benefit obligation	-	-	-	(221,562,169)	-	(221,562,169)
Transactions with owners:	-	-	-	-	(102,500,000,000)	(102,500,000,000)
Annual dividends	-	-	-	-	(102,500,000,000)	(102,500,000,000)
Balance at March 31, 2016	₩ 102,500,000,000	431,858,927,596	(8,994,796,867)	1,161,716,683,210	5,642,807,413,214	7,329,888,227,153

See accompanying notes to the condensed separate interim financial statements.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Changes in Equity, continued
For the three-month period ended March 31, 2017

(Unaudited)

(In won)		Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2017	₩	102,500,000,000	431,858,927,596	(8,994,796,867)	973,715,695,927	5,925,167,741,470	7,424,247,568,126
Total comprehensive income for the period		-	-	-	4,278,642,451	179,332,380,635	183,611,023,086
Profit for the period		-	-	-	-	179,332,380,635	179,332,380,635
Other comprehensive income		-	-	-	4,278,642,451	-	4,278,642,451
Valuation of available-for-sale financial assets		-	-	-	(1,563,270,385)	-	(1,563,270,385)
Loss on valuation of held-to-maturity financial assets transferred from available-for-sale financial assets		-	-	-	(1,805,377,815)	-	(1,805,377,815)
Valuation of investments in associates		-	-	-	317,015,738	-	317,015,738
Valuation of derivative instruments		-	-	-	(1,020,552,070)	-	(1,020,552,070)
Other comprehensive income in separate accounts		-	-	-	5,154,727,591	-	5,154,727,591
Gain on revaluation of property and equipment		-	-	-	3,747,431,429	-	3,747,431,429
Remeasurement loss related to defined benefit obligation		-	-	-	(551,332,037)	-	(551,332,037)
Transactions with owners:		-	-	-	-	(76,875,000,000)	(76,875,000,000)
Annual dividends		-	-	-	-	(76,875,000,000)	(76,875,000,000)
Balance at March 31, 2017	₩	102,500,000,000	431,858,927,596	(8,994,796,867)	977,994,338,378	6,027,625,122,105	7,530,983,591,212

See accompanying notes to the condensed separate interim financial statements.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Cash Flows
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)		2017	2016
Cash flows from operating activities			
Net income before income tax expenses	₩	229,521,591,019	257,344,454,183
Adjustments for:			
Interest income		(584,181,020,631)	(598,750,881,007)
Interest expenses		2,670,471,707	4,806,954,773
Dividend income		(128,758,351,731)	(112,997,968,806)
Other adjustments to reconcile net income to net cash provided by operating activities:			
Gain on valuation of trading assets, net		(631,603,888)	(1,356,198,800)
Gain on disposal of available-for-sale financial assets, net		(42,116,555,550)	(32,497,891,298)
Impairment losses of available-for-sale financial assets		15,192,068,167	1,647,938,101
Gain on disposal of held-to-maturity financial assets, net		(675,848,032)	(16,629,479)
Provision for loan losses		-	619,002,432
Reversal of Allowance for Doubtful Accounts		(839,911,512)	-
Gain on foreign currency transaction, net		980,549,346,187	222,165,547,179
Gain on valuation of derivative, net		(977,410,886,483)	(234,349,867,599)
Loss (gain) on disposal of derivatives, net		(1,243,429,415)	14,402,934,787
Loss (gain) on investments in associates, net		(409,273,280)	1,051,253,884
Amortization of deferred acquisition costs		201,660,239,078	220,059,694,107
Depreciation of investment properties		2,414,559,090	2,311,689,086
Loss on disposal of investment properties and equipment, net		40,598,238	63,545,877
Depreciation of property and equipment		4,722,548,246	5,165,500,235
Impairment losses of property and equipment		-	9,910,022
Amortization of intangible asset		1,610,265,995	1,598,573,031
Impairment losses on intangible asset		500,000	85,500,000
Provision for insurance contract liabilities		777,966,477,627	982,652,227,953
Reinsurance expenses (income)		(215,431,326)	465,291,446
Severance benefits		5,127,720,715	10,824,784,846
Bad debt expenses on other assets		836,381,669	200,693,155
Others loss (gain), net		(832,491,200)	(72,905,047)
		965,745,274,326	1,195,030,593,918
Changes in operating assets and liabilities:			
Due from banks		(77,456,187,500)	(98,737,895,945)
Trading assets		205,830,079,235	11,452,290,282
Loans		117,028,507,736	(219,904,779,040)
Other receivables		126,244,770,251	322,083,449,971
Derivative assets		645,292,493,525	168,021,593,599
Deferred acquisition costs		(157,415,917,046)	(173,114,276,040)
Other assets		(45,372,478,704)	(26,601,744,020)
Separate account assets		(677,579,661,432)	(641,971,402,474)
Derivative liabilities		(695,331,671,387)	(234,790,403,549)
Other financial liabilities		(75,529,743,284)	(231,200,777,852)
Provisions		(70,456,251)	(2,609,020,926)
Liabilities for Defined benefit obligation		8,682,005,392	(3,620,867,022)
Other liabilities		55,297,943,817	18,344,753,436
Separate account liabilities		429,740,775,569	244,591,902,860
		(140,639,540,079)	(868,057,176,720)

See accompanying notes to the condensed separate interim financial statements.

KYOBO LIFE INSURANCE CO., LTD.
Condensed Separate Interim Statements of Cash Flows, continued
For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(In won)		**2017**	**2016**
Income taxes paid		(77,755,950,862)	(82,741,521,967)
Interest received		561,097,774,915	559,108,454,300
Interest paid		(1,182,058,571)	(3,944,887,064)
Dividends received		103,552,682,251	73,841,160,236
Net cash provided by operating activities		930,070,872,344	423,639,181,846
Investing activities:			
Acquisition of available-for-sale financial assets		(4,313,058,035,958)	(3,752,749,722,819)
Disposal of available-for-sale financial assets		4,227,845,335,679	3,987,367,983,620
Acquisition of held-to-maturity financial assets		(767,159,780,024)	(854,100,154,714)
Redemption of disposal of held-to-maturity financial assets		261,648,469,360	96,009,312,548
Cash in flow from derivatives held for hedging		7,587,701,336	9,770,805,772
Cash out flow from derivatives held for hedging		(21,897,458,182)	(14,995,251,339)
Proceeds from disposal of investments in associates		6,686,268,461	8,701,129,917
Acquisition of property, equipment and investment property		(3,666,919,231)	(1,955,902,724)
Proceeds from disposal of property, equipment and investment property		29,641,798	172,476,033
Acquisition of intangible assets		(562,760,940)	(300,610,000)
Proceeds from disposal of intangible assets		150,000,000	-
Increase in leasehold deposits		(1,462,398,100)	(3,669,683,410)
Decrease in leasehold deposits		1,866,249,120	4,341,498,939
Dividends of investments in associates		14,687,220,027	11,374,287,947
Net cash used in investing activities		(587,306,466,654)	(510,033,830,230)
Financing activities:			
Increase in rental deposits		711,698,000	1,262,115,000
Decrease in rental deposits		(626,479,100)	(569,403,630)
Dividends paid		(76,875,000,000)	(102,500,000,000)
Net cash used in financing activities		(76,789,781,100)	(101,807,288,630)
Effect of exchange rate fluctuations on cash and cash equivalents held		(1,383,758,149)	(168,640,009)
Net increase (decrease) in cash and cash equivalents		264,590,866,441	(188,370,577,023)
Cash and cash equivalents at beginning of period		561,898,815,284	906,495,677,121
Cash and cash equivalents at end of period	₩	826,489,681,725	718,125,100,098

See accompanying notes to the condensed separate interim financial statements.

1. Company information

Kyobo Life Insurance Co., Ltd. (the "Company") was established on June 30, 1958, and primarily engages in the life insurance business as permitted by the Insurance Business Law of the Republic of Korea. The Company's head office is located at Jongno-ro, Jongno-gu, Seoul, Republic of Korea. As of March 31, 2017, the Company has 7 FP offices, 68 supporting offices, 534 branches in the Republic of Korea engaging in life insurance business and its related reinsurance contracts. The following table lists the number of currently available insurance products and discontinued but currently maintained insurance products as of March 31, 2017:

	Insurance products		
Type	Available	Discontinued	Total
Individual annuity	17	81	98
Pure endowment	4	26	30
Death	32	179	211
Endowment	2	39	41
Group insurance	18	23	41
	73	348	421

As of March 31, 2017, the Company's major shareholders and their respective shareholdings were as follows:

Shareholders	Number of shares	Percentage of ownership (%)
Chang-Jae Shin	6,925,474	33.78
Tiger Holdings LP	2,035,000	9.93
Corsair Korea Investors LLC	2,007,766	9.79
Guardian Holdings Limited	1,855,250	9.05
The Export-Import bank of Korea	1,199,001	5.85
KLI Investors LLC	1,092,165	5.33
Hoenir Inc.	1,071,125	5.23
KLIC Holdings Limited	1,071,125	5.23
Apfin Investment Pte Ltd	922,500	4.50
In-Jae Shin	518,600	2.53
AXA	460,000	2.24
Kyung-Ae Shin	350,002	1.71
Young-Ae Shin	289,992	1.41
Triumph II Investments (Ireland) Limited	220,000	1.07
Meiji Yasuda Life Insurance Company	205,000	1.00
Others	277,000	1.35
	20,500,000	100.00

2. Basis of preparation and significant accounting policies

(1) Basis of preparation

The condensed separate interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations.

These condensed separate interim financial statements were prepared in accordance with K-IFRS No. 1034, 'Interim Financial Reporting'. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual separate financial statements as at and for the year ended December 31, 2016. These condensed separate interim financial statements do not include all of the disclosures required for full annual financial statements.

These condensed interim financial statements are separate interim financial statements prepared in accordance with K-IFRS No.1027, 'Separate Financial Statements' presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

(2) Significant accounting policies

The accounting policies adopted in the preparation of the interim separate financial statements are consistent with those followed in the preparation of the Company's annual separate financial statements as of and for the year ended December 31, 2016.

3. Significant accounting judgments, estimates and assumptions

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily observable from objective sources. The estimation and assumption based on other factors that are related to historical experience. Actual results may differ from these estimates.

The significant judgments which management has made regarding the application of the Company's accounting policies and key sources of uncertainty in accounting estimates do not differ from those used in preparing the annual financial statements for the year ended December 31, 2016.

(Unaudited)

(In millions of won)

4. Cash and due from banks

(1) Cash and cash equivalent as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Cash	₩	442	426
Demand deposits		113,946	37,696
MMDA		437,000	475,100
Other deposits		112,366	26,488
Foreign currency deposits		162,736	22,188
	₩	826,490	561,898

(2) Due from banks as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Time deposits	₩	2,990	32,990
Foreign currency deposits		503,280	422,695
Other deposits		21	21
Future transactions deposits		191	255
	₩	506,482	455,961

(3) Bank deposits with withdrawal restrictions as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016	Details
Others	₩	11	11	Guarantee deposits for checking accounts

5. Trading assets

Trading assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Equity securities:			
Money market fund	₩	541,051	750,779

(In millions of won)

6. Available-for-sale financial assets

(1) Available-for-sale financial assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Equity securities:			
Listed share	₩	639,493	667,299
Unlisted share		323,982	323,528
Equity investments		141,616	137,647
Beneficiary certificates		4,291,408	4,158,864
Overseas securities		1,107,436	912,436
Other securities		28,340	25,749
		6,532,275	6,225,523
Debt securities:			
Government and public bonds		5,611,414	5,582,335
Special bonds		4,380,746	4,865,155
Financial institutions bonds		135,414	123,262
Corporate bonds		1,941,205	1,997,106
Overseas securities		2,061,194	2,032,880
		14,129,973	14,600,738
	₩	20,662,248	20,826,261

The fair values of domestic currency debt securities and foreign currency debt securities of available-for-sale financial assets are based on the average prices of base prices on the latest business day, which are provided by Korea Asset Pricing (KAP) and KIS Pricing Inc. The fair values of unlisted stocks and investment, of which the posted prices are not available in an active market, are calculated, based on appraised values in the appraisal reports of KAP.

(2) Unlisted shares and equity investments were recognized at acquisition costs of ₩10,899 million as of March 31, 2017 and December 31, 2016 due to difficulties in estimating the fair value reliably.

(3) Impairment loss on available-for-sale financial assets for the three-month periods ended March 31, 2017 and 2016 amount to ₩15,192 million and ₩1,648 million, respectively.

(4) Available-for-sale financial assets pledged as collateral as of March 31, 2017 and December 31, 2016 are as follows:

Purpose		March 31, 2017	December 31, 2016	Counter Party
Collateral for derivatives	₩	58,479	72,176	Barclays Bank, Credit Suisse Bank, Kyobo Securities Co., Ltd.

(Unaudited)

(In millions of won)

7. Held-to-maturity financial assets

(1) Held-to-maturity financial assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Government and public bonds	₩	10,460,206	10,302,408
Special bonds		5,463,799	5,474,841
Financial institutions bonds		562,253	562,356
Corporate bonds		1,133,348	1,143,503
Foreign securities		9,358,617	9,704,417
	₩	26,978,223	27,187,525

(2) Held-to-maturity financial assets pledged as collateral as of March 31, 2017 and December 31, 2016 are as follows:

Purpose		March 31, 2017	December 31, 2016	Counter Party
Collateral for derivatives	₩	545,083	638,564	Morgan Stanley, Barclays Bank, UBS Bank, Credit Suisse Bank, Standard Chartered Bank Korea Limited, Kookmin Bank, Deutsche Bank, Bank of America Corporation, Societe Generale Bank, Industrial Bank of Korea, Korea Development Bank

(Unaudited)

(In millions of won)

8. Loans

(1) Loans as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Policy loans	₩	5,802,876	5,858,082
Loans secured by real estate		4,811,229	5,037,882
Unsecured loans		6,187,415	6,131,920
Loans secured by third party guarantees		888,909	812,390
Other loans		99,430	72,306
Present value discount		(577)	(650)
Allowance for loan losses		(33,198)	(34,573)
Deferred loan origination costs and fees		11,983	15,783
	₩	17,768,067	17,893,140

(2) Changes in allowance for loan losses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balance	₩	34,573	32,746
Losses (reversal) provision for loan, net		(840)	619
Write-off		(4,204)	(4,352)
Unwinding effect		(118)	(123)
Recovery of bad debts		3,787	3,591
Ending balance	₩	33,198	32,481

(Unaudited)

(In millions of won)

9. Other receivables

(1) Details of other receivables as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Insurance receivables:			
Premiums transferred automatically	₩	3,389	83,149
Insurance settlement adjustments		1,104	1,024
Reinsurance receivables		24,691	49,255
Other insurance receivables		19,422	31,024
		48,606	164,452
Accounts receivables		169,622	68,083
Guarantee deposits		89,412	89,816
Accrued income		1,107,568	1,090,069
Others		394	422
		1,415,602	1,412,842
Present value discount		(2,516)	(2,865)
Allowance for other receivables		(25,415)	(24,579)
	₩	1,387,671	1,385,398

(2) Changes in the allowance for other receivables for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balance	₩	24,579	23,677
Provision for other receivables, net		836	201
Write-off		-	(1)
Ending balance	₩	25,415	23,877

(In millions of won)

10. Investments in associates and subsidiaries and joint venture

Investments in associates, jointly controlled entities and subsidiaries as of March 31, 2017 and December 31, 2016 are summarized as follows:

			March 31, 2017		December 31, 2016	
	Valuation method	Country	Book value	Owner ship (%)	Book value	Owner ship (%)
Subsidiaries:						
Kyobo Securities Co., Ltd.	Cost	Korea	₩ 280,104	51.6	280,104	51.6
Kyobo Book Center Co., Ltd.	Cost	Korea	69,933	100.0	69,933	100.0
Kyobo Info. & Comm. Co., Ltd	Cost	Korea	8,565	89.8	8,565	89.8
Kyobo Realco Inc.	Cost	Korea	15,985	100.0	15,985	100.0
KCA Claim Adjustment Co., Ltd.	Cost	Korea	2,680	100.0	2,680	100.0
Kyobo Data Center Co., Ltd.	Cost	Korea	43,704	100.0	43,704	100.0
Kyobo Life Planet Life Insurance company	Cost	Korea	100,840	91.9	100,840	91.9
Kyobo Life Asset Management Co., Ltd. (USA)	Cost	USA	3,503	100.0	3,503	100.0
Kyobo Life Asset Management Co., Ltd. (Japan)	Cost	Japan	1,118	100.0	1,118	100.0
New high yield D2 open end B-1	Fair value	Korea	61	100.0	61	100.0
Consus BTL Private Special Asset Investment Trust 1	Fair value	Korea	26,714	57.2	27,082	57.2
Consus Hope BTL Private Special Asset Investment Trust 1	Fair value	Korea	29,790	66.7	30,240	66.7
Consus New Energy Private Special Asset Investment Trust 2	Fair value	Korea	23,421	68.8	23,961	68.8
KIAMCO SHIPPING Private Special Asset Investment Trust KX-1	Fair value	Korea	16,999	100.0	17,135	100.0
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	Fair value	Korea	39,509	86.7	38,992	86.7
			662,926		663,903	

(Unaudited)

(In millions of won)

10. Investments in associates and subsidiaries and joint venture, (cont'd)

Investments in associates, jointly controlled entities and subsidiaries as of March 31, 2017 and December 31, 2016 are summarized as follows (cont'd):

				March 31, 2017		December 31, 2016	
	Valuation method	Country		Book value	Owner ship (%)	Book value	Owner ship (%)
Associates:							
A&D Credit Information Co.,Ltd. (*1)	Cost	Korea		2,947	19.5	2,947	19.5
Kocref No.14 REIT Co., Ltd. (*3)	Cost	Korea		-	-	4,606	14.6
Trus Y 7 REIT CO., Ltd. (*1)	Cost	Korea		4,000	8.3	4,000	8.3
KoFC Kyobo Hanhwa 2010-6 (*2)	Cost	Korea		934	10.0	1,134	10.0
				7,881		12,687	
Jointly controlled entities:							
Kyobo AXA Investment Management Co., Ltd.	Cost	Korea		26,959	50.0	26,959	50.0
Saeng bo Real Estate Trust Co., Ltd.	Cost	Korea		29,974	50.0	29,974	50.0
				56,933		56,933	
			₩	727,740		733,523	

(*1) The entities are classified as associates even though the Company holds less than 20% of shares, since members of the Company's board of directors are also members of the entities' board and thus have significant influence over the entities.

(*2) The entities are classified as associates since the Company and its subsidiaries hold more than 20% of shares (although the Company alone holds less than 20% of shares). There were no changes in the ratio of shares and investment principal has decreased due to even allocation of investment principal to investors for the three-month period ended March 31, 2017.

(*3) Kocref No.14 REIT Co., Ltd. was liquidated during the three-month period ended March 31, 2017.

(In millions of won)

11. Classification by categories of financial instruments

(1) The carrying amounts of each category of financial assets and financial liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

		March 31, 2017							
		Fair value through profit or loss assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Hedging purpose derivatives	Fair value through profit or loss liabilities	Financial liabilities recognized by amortized cost	Total
Financial assets:									
Cash and due from banks	₩	-	-	-	1,332,972	-	-	-	1,332,972
Trading assets		541,051	-	-	-	-	-	-	541,051
Derivatives		15,005	-	-	-	348,825	-	-	363,830
Available-for-sale financial assets		-	20,662,248	-	-	-	-	-	20,662,248
Held-to-maturity financial assets		-	-	26,978,223	-	-	-	-	26,978,223
Loans		-	-	-	17,768,067	-	-	-	17,768,067
Other receivables		-	-	-	1,387,671	-	-	-	1,387,671
Investments in associates and subsidiaries(*)		-	136,494	-	-	-	-	-	136,494
	₩	556,056	20,798,742	26,978,223	20,488,710	348,825	-	-	69,170,556
Financial liabilities:									
Derivatives	₩	-	-	-	-	104,194	48,617	-	152,811
Other financial liabilities		-	-	-	-	-	-	448,028	448,028
	₩	-	-	-	-	104,194	48,617	448,028	600,839

(*) The beneficiary certificates are within the scope of consolidation using KIFRS 1039.

(Unaudited)

(In millions of won)

11. Classification by categories of financial instruments, (cont'd)

(1) The carrying amounts of each category of financial assets and financial liabilities as of March 31, 2017 and December 31, 2016 are summarized as follows (cont'd):

		December 31, 2016							
		Fair value through profit or loss assets	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Hedging purpose derivatives	Fair value through profit or loss liabilities	Financial liabilities recognized by amortized cost	Total
Financial assets:									
Cash and due from banks	₩	-	-	-	1,017,859	-	-	-	1,017,859
Trading assets		750,779	-	-	-	-	-	-	750,779
Derivatives		23,144	-	-	-	8,568	-	-	31,712
Available-for-sale financial assets		-	20,826,261	-	-	-	-	-	20,826,261
Held-to-maturity financial assets		-	-	27,187,525	-	-	-	-	27,187,525
Loans		-	-	-	17,893,140	-	-	-	17,893,140
Other receivables		-	-	-	1,385,398	-	-	-	1,385,398
Investments in associates and subsidiaries(*)		-	137,471	-	-	-	-	-	137,471
	₩	773,723	20,963,732	27,187,525	20,296,397	8,568	-	-	69,230,145
Financial liabilities:									
Derivatives	₩	-	-	-	-	731,843	130,506	-	862,349
Other financial liabilities		-	-	-	-	-	-	551,342	551,342
	₩	-	-	-	-	731,843	130,506	551,342	1,413,691

(*) The beneficiary certificates are within the scope of consolidation using KIFRS 1039.

(Unaudited)

(In millions of won)

11. Classification by categories of financial instruments, (cont'd)

(2) Gains (losses) on categories of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017						
		Net profit and loss						
		Interest income (expense), net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income (expense), net(*)	Subtotal	Other comprehensive income
Trading assets	₩	-	(3,362)	632	-	(4,566)	(7,296)	-
Available-for-sale financial assets		104,441	42,117	-	(15,192)	(101,679)	29,687	(1,563)
Held-to-maturity financial assets		244,787	676	-	-	(728,774)	(483,311)	(1,805)
Trading purpose derivatives		-	9,901	924,277	-	-	934,178	-
Hedging purpose derivatives		-	1,243	53,170	-	-	54,413	(1,021)
Loans and receivables		233,067	27	-	4	(33,709)	199,389	-
Financial liabilities measured at amortized cost		(1,400)	-	-	-	-	(1,400)	-
	₩	580,895	50,602	978,079	(15,188)	(868,728)	725,660	(4,389)

(*) Including foreign currency transaction gain or loss and dividend income.

(Unaudited)

(In millions of won)

11. Classification by categories of financial instruments, (cont'd)

(2) Gains (losses) on categories of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

		For the three-month period ended March 31, 2016						
		Net profit and loss						
		Interest income (expense), net	Gain (loss) on disposal	Gain (loss) on valuation	Impairment loss	Other operating income (expense), net(*)	Subtotal	Other comprehensive income
Trading assets	₩	207	400	1,356	-	(937)	1,026	-
Available-for-sale financial assets		131,680	32,498	-	(1,648)	51,835	214,365	88,458
Held-to-maturity financial assets		234,019	17	-	-	(163,717)	70,319	(1,357)
Trading purpose derivatives		-	(14,412)	22,478	-	-	8,066	-
Hedging purpose derivatives		-	9	211,872	-	-	211,881	(7,289)
Loans and receivables		231,604	18	-	(820)	(10,938)	219,864	-
Financial liabilities measured at amortized cost		(1,612)	-	-	-	-	(1,612)	-
	₩	595,898	18,530	235,706	(2,468)	(123,757)	723,909	79,812

(*) Including foreign currency transaction gain or loss and dividend income.

(Unaudited)

(In millions of won)

12. Fair value of financial assets and liabilities

(1) Fair value of financial instruments

Book value and fair value of financial assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2016	
		Book value	Fair value	Book value	Fair value
Financial assets:					
Cash and due from banks	₩	1,332,972	1,332,972	1,017,859	1,017,859
Trading assets		541,051	541,051	750,779	750,779
Derivative assets		363,830	363,830	31,712	31,712
Available-for-sale financial assets		20,662,248	20,662,249	20,826,261	20,826,261
Held-to-maturity financial assets		26,978,223	28,989,475	27,187,525	29,384,876
Loans		17,768,067	17,838,381	17,893,140	17,981,328
Other receivables		1,387,671	1,387,816	1,385,398	1,385,744
Investments in associates and subsidiaries		136,494	136,494	137,471	137,471
	₩	69,170,556	71,252,268	69,230,145	71,516,030
Financial liabilities:					
Derivative liabilities	₩	152,811	152,811	862,349	862,349
Other financial liabilities		448,028	448,903	551,342	552,870
	₩	600,839	601,714	1,413,691	1,415,219

(2) Financial instruments measured at the fair value

The Company classifies and discloses fair value of the financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(2) Financial instruments measured at the fair value (cont'd)

Financial instruments measured at the fair value as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Trading assets	₩	-	541,051	-	541,051
Derivative assets		-	363,830	-	363,830
Available-for-sale financial assets		859,357	15,422,946	4,379,946	20,662,249
Investments in associates and subsidiaries		-	61	136,433	136,494
	₩	859,357	16,327,888	4,516,379	21,703,624
Financial liabilities:					
Derivative liabilities	₩	-	152,811	-	152,811

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Trading assets	₩	-	750,779	-	750,779
Derivative assets		-	31,712	-	31,712
Available-for-sale financial assets		759,386	15,845,196	4,221,679	20,826,261
Investments in associates and subsidiaries		-	61	137,410	137,471
	₩	759,386	16,627,748	4,359,089	21,746,223
Financial liabilities:					
Derivative liabilities	₩	-	862,349	-	862,349

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(3) Changes in level 3 fair value hierarchy for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017		
		Available-for-sale financial assets	Investments in subsidiaries and associates	Total
Beginning balance	₩	4,221,679	137,410	4,359,089
Purchases		234,587	-	234,587
Settlements		(89,148)	(1,468)	(90,616)
Total income:		12,828	491	13,319
Profit or loss		(6)	(10)	(16)
Other comprehensive income		12,834	501	13,335
Ending balance	₩	4,379,946	136,433	4,516,379

(*) There was no transfer between level 3 and other levels for the three-month periods ended March 31, 2017 and 2016.

		For the three-month period ended March 31, 2016			
		Available-for- sale financial assets	Investments in subsidiaries and associates	Derivative liabilities	Total
Beginning balance	₩	3,822,230	148,801	(7,723)	3,963,308
Purchases		238,735	-	-	238,735
Settlements		(67,554)	(8,412)	-	(75,966)
Total income:		(8,118)	853	(68)	(7,333)
Profit or loss		(76)	(1,021)	(68)	(1,165)
Other comprehensive income		(8,042)	1,874	-	(6,168)
Ending balance	₩	3,985,293	141,242	(7,791)	4,118,744

(*) There was no transfer between level 3 and other levels for the three-month periods ended March 31, 2017 and 2016.

(Unaudited)

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(4) Total gains or losses for the three-month periods ended March 31, 2017 and 2016 recognized in profit of loss and gains or losses relating to financial instruments in level 3 at the end of the reporting year are presented in the statement of comprehensive income as follows:

		For the three-month period ended March 31, 2017	
		Total gains (losses)	Gains (losses) relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in level 3	₩	472	(16)

		For the three-month period ended March 31, 2016	
		Total gains (losses)	Gains (losses) relating to financial instruments held at the end of the reporting period
Recognized in profit or loss relating to financial instruments in level 3	₩	(1,100)	(1,165)

(Unaudited)

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(5) Valuation techniques and inputs used in measuring fair value of financial instruments classified as level 2 as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017

Type of financial instrument	Valuation technique	Input variables
Financial assets:		
Trading assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price
Derivative assets	Discounted cash flow, Option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price
Available-for-sale financial assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price
Financial liabilities:		
Derivative liabilities	Discounted cash flow, Option pricing model, Black-Scholes model	Interest rate, foreign exchange rate, stock price

December 31, 2016

Type of financial instrument	Valuation technique	Input variables
Financial assets:		
Trading assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price
Derivative assets	Discounted cash flow, Option pricing model	Interest rate, foreign exchange rate, stock price
Available-for-sale financial assets	Discounted cash flow	Interest rate, foreign exchange rate, stock price
Financial liabilities:		
Derivative liabilities	Discounted cash flow, Option pricing model	Interest rate, foreign exchange rate, stock price

(6) There was no transfer between level 1 and level 2 for the three-month periods ended March 31, 2017 and 2016.

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(7) Information about significant unobservable inputs in measuring financial instruments categorized as level 3 as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Available-for-sale financial assets	Discounted cash flow, Dividend discount model, Net asset method etc.	Permanent growth rate	0%	A significant increase in growth rate would result in a higher fair value
		Discount rate	1.95% ~ 15.34%	A significant increase in discount rate would result in a lower fair value
		The volatility of liquidation value rate	0%	A significant increase in liquidation value rate would result in a higher fair value

December 31, 2016

Type of financial instrument	Valuation technique	Input variables	Range of estimates for unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Available-for-sale financial assets	Discounted cash flow, Dividend discount model, Net asset method etc.	Permanent growth rate	0%	A significant increase in growth rate would result in a higher fair value
		Discount rate	2.41% ~ 21.76%	A significant increase in discount rate would result in a lower fair value
		The volatility of liquidation value rate	0%	A significant increase in liquidation value rate would result in a higher fair value
Derivative liabilities	Hull & White model	Discount rate	1.92%	A significant increase in discount rate would result in a lower fair value

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(8) For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effect on profit or loss, or other comprehensive income:

		March 31, 2017			
		Net income		Other comprehensive income	
		Favorable change	Unfavorable change	Favorable change	Unfavorable change
Available-for-sale financial assets(*)	₩	-	-	12,288	(7,984)

(*) Change in fair value is calculated by increasing or decreasing the correlation of permanent growth rate (0%~1%), fluctuation rate of liquidation value (-1% ~1%) and discount rate (-1%~1%).

		December 31, 2016			
		Net income		Other comprehensive income	
		Favorable change	Unfavorable change	Favorable change	Unfavorable change
Available-for-sale financial assets(*)	₩	-	-	11,092	(7,702)

(*) Change in fair value is calculated by increasing or decreasing the correlation of permanent growth rate (0%~1%), fluctuation rate of liquidation value (-1% ~1%) and discount rate (-1%~1%).

(In millions of won)

12. Fair value of financial assets and liabilities (cont'd)

(9) The fair value hierarchy of financial instruments which are not measured at fair value in the separate statement of financial position as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	₩	442	1,332,530	-	1,332,972
Held-to-maturity financial assets		-	28,989,475	-	28,989,475
Loans		-	-	17,838,381	17,838,381
Other receivables		-	-	1,387,816	1,387,816
	₩	442	30,322,005	19,226,197	49,548,644
Financial liabilities:					
Other financial liabilities	₩	-	-	448,903	448,903

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	₩	426	1,017,433	-	1,017,859
Held-to-maturity financial assets		-	29,384,876	-	29,384,876
Loans		-	-	17,981,328	17,981,328
Other receivables		-	-	1,385,744	1,385,744
	₩	426	30,402,309	19,367,072	49,769,807
Financial liabilities:					
Other financial liabilities	₩	-	-	552,870	552,870

(Unaudited)

(In millions of won)

13. Investment property

(1) Investment property as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	846,197	-	(4,347)	841,850
Buildings		483,348	(129,841)	(11,413)	342,094
Structures		11,150	(2,869)	(212)	8,069
	₩	1,340,695	(132,710)	(15,972)	1,192,013

		December 31, 2016			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	826,536	-	(4,675)	821,861
Buildings		466,967	(121,859)	(9,013)	336,095
Structures		10,678	(2,647)	(205)	7,826
	₩	1,304,181	(124,506)	(13,893)	1,165,782

(2) Investment property pledged as collaterals as of March 31, 2017 and December 31, 2016 are as follows:

			March 31, 2017	December 31,2016	Purpose
Doosan Heavy Industries & Construction, Woori Bank, McDonald's Korea and 70 others	Book value	₩	105,033	103,019	Establishment of the right to collateral security
	Maximum credit amount		117,528	115,336	

(Unaudited)

(In millions of won)

14. Property and equipment

(1) Property and equipment as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	580,080	-	(6,479)	573,601
Buildings		529,528	(144,875)	(39,007)	345,646
Structures		17,723	(5,574)	(312)	11,837
Vehicles		2,138	(1,711)	-	427
Equipment		248,752	(234,956)	-	13,796
Others		25,675	(12,083)	(326)	13,266
	₩	1,403,896	(399,199)	(46,124)	958,573

		December 31, 2016			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Land	₩	603,580	-	(7,376)	596,204
Buildings		549,248	(149,390)	(41,407)	358,451
Structures		18,210	(5,659)	(321)	12,230
Vehicles		2,079	(1,659)	-	420
Equipment		262,876	(248,699)	-	14,177
Others		12,444	(547)	(326)	11,571
	₩	1,448,437	(405,954)	(49,430)	993,053

(2) Reserve for revaluation as of March 31, 2017 is as follows:

Revaluation date		Amount
January 1, 1981	₩	165
April 1, 1989		66,223
April 1, 1999		23,900
		90,288
Deferred tax effect		(19,863)
	₩	70,425

(In millions of won)

14. Property and equipment (cont'd)

(2) Reserve for revaluation as of March 31, 2017 is as follows (cont'd):

As of April 1, 1999, a certain portion of the Company's property and equipment was revalued in accordance with the Korean Asset Revaluation Law. As a result, the revaluation increment amounting to ₩478,550 million was classified as asset revaluation reserve. Out of this amount, ₩47,800 million, excluding participating policyholder's equity amounting to ₩430,750 million, was calculated as asset revaluation reserve. The asset revaluation reserve amounting to ₩23,900 million was transferred to capital stock during the year ended March 31, 2002. Out of ₩430,750 million, the amount of ₩64,000 million was transferred to the reserve for special participating policyholders' dividends and was paid during the year ended March 31, 2002, while the amount of ₩63,750 million was transferred to reserve for social contributions in policyholders' equity. The amount of ₩126,438 million, out of the remainder amounting to ₩303,000 million, was used for dividends to policyholders for the year ended March 31, 2001, while the amount of ₩176,562 million was transferred to reserve for participating policyholder's dividends for stabilization. The amount of ₩149,241 million, a part of reserve for participating policyholder's dividends for stabilization, was used for dividends to policyholders. The reserve for participating policyholder's dividends for stabilization amounts to ₩27,321 million.

The amount of ₩65,923 million from the Company's reserve for revaluation incurred on April 1, 1989 will be used for future policyholder's dividend or deficit recovery. Therefore, it is excluded from the Company's equity when conducting security analysis.

(Unaudited)

(In millions of won)

15. Intangible assets

Intangible assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Software	₩	87,711	(80,747)	-	6,964
Development cost		76,032	(70,702)	-	5,330
Memberships		7,389	-	(1)	7,388
	₩	171,132	(151,449)	(1)	19,682

		December 31, 2016			
		Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Book value
Software	₩	87,447	(80,008)	-	7,439
Development cost		75,534	(69,831)	-	5,703
Memberships		8,813	-	(1,274)	7,539
	₩	171,794	(149,839)	(1,274)	20,681

16. Deferred acquisition costs

Changes in deferred acquisition costs for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017					
			Acquisition cost				
		Beginning balance	Total generated acquisition cost(*)	Immediately expensed amount (*)	Deferred amount	Amortization of deferred acquisition costs	Ending balance
Individual insurance	₩	1,756,650	192,773	(39,223)	153,550	(198,424)	1,711,776
Group insurance		28,601	4,248	(382)	3,866	(3,236)	29,231
	₩	1,785,251	197,021	(39,605)	157,416	(201,660)	1,741,007

(Unaudited)

(In millions of won)

16. Deferred acquisition costs (cont'd)

		For the three-month period ended March 31, 2016					
			Acquisition cost				
		Beginning balance	Total generated acquisition cost(*)	Immediately expensed amount (*)	Deferred amount	Amortization of deferred acquisition costs	Ending balance
Individual insurance	₩	1,932,240	214,519	(44,808)	169,711	(216,852)	1,885,099
Group insurance		26,154	4,154	(750)	3,404	(3,208)	26,350
	₩	1,958,394	218,673	(45,558)	173,115	(220,060)	1,911,449

(*) These columns are not included in the mathematical calculations of ending balance.

17. Other assets

Other assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Reinsurance assets	₩	19,018	18,803
Prepaid expense		33,585	5,255
Advance payments		36,607	22,296
Others		2,315	205
	₩	91,525	46,559

18. Non-current assets held-for-sale

The Company reclassified property, equipment and investment property amounting to ₩4,954 million which were planned to be disposed in short-term as non-current assets held-for-sale as of March 31, 2017.

(Unaudited)

(In millions of won)

19. Liabilities under insurance contracts

The details of liabilities under insurance contracts as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017				
		Pure endowment	Death	Endowment	Group	Total
Premium reserve	₩	25,965,284	30,657,363	4,531,497	416,234	61,570,378
Unearned premium reserve		231	1,991	2	5,216	7,440
Reserve for outstanding claims		767,132	796,402	44,666	62,375	1,670,575
Reserve for participating policyholder's dividend		395,300	6,092	4,035	2,335	407,762
		27,127,947	31,461,848	4,580,200	486,160	63,656,155
Guarantee reserve						700,702
Dividends reserve for policyholder's income participation						32,288
Reserve for losses on dividend insurance contract						46,906
					₩	64,436,051

(In millions of won)

19. Liabilities under insurance contracts (cont'd)

		December 31, 2016				
		Pure endowment	Death	Endowment	Group	Total
Premium reserve	₩	25,719,016	30,154,942	4,462,228	430,215	60,766,401
Unearned premium reserve		214	2,058	2	4,665	6,939
Reserve for outstanding claims		755,693	805,213	46,131	61,725	1,668,762
Reserve for participating policyholder's dividend		395,967	6,428	4,252	2,934	409,581
		26,870,890	30,968,641	4,512,613	499,539	62,851,683
Guarantee reserve						713,377
Dividends reserve for policyholder's income participation						24,702
Reserve for losses on dividend insurance contract						43,377
					₩	63,633,139

20. Policyholder's equity adjustments

Policyholder's equity adjustments as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Reserve for policyholder dividend stabilization	₩	27,322	27,322
Fund for public projects		99,466	99,466
Gain on valuation of available-for-sale financial assets		126,401	133,754
Gain on valuation of investment in associates and subsidiaries		471	396
Gain on valuation of held-to-maturity financial assets		32,629	34,256
Gain on revaluation of property and equipment		147,473	152,418
	₩	433,762	447,612

(Unaudited)

(In millions of won)

21. Liability adequacy tests (LAT)

The Company concluded that there are no significant changes to the assumptions such as experience rate, etc. as of December 31, 2016. Thus, it did not calculate deficiency (surplus) of liability adequacy as of March 31, 2017.

The assumptions and calculation methods used in the calculation of current estimates for future cash flows in the Liability Adequacy Test as of December 31, 2016 are as follows:

	Assumed rate (%)
Discount rate(*1)	3.05 ~ 7.90
Risk premium rate(*2)	19 ~ 259
Surrender ratio(*3)	1 ~ 72

(*1) Discount rate curve presented by Financial Supervisory Service plus risk discount rate calculated by the Company based on historical information.
(*2) Ratio of premium paid to risk premium based on past statistics of recent 5 years or more by product type, time insurance is sold and lapse of time.
(*3) Ratio of earned premium for surrender to earned premium based on past statistics of recent 5 years or more by product type, channel type, payment method type and by lapse of time.

Acquisition costs of the operating and administrative expenses are calculated by applying ratio of actual acquisition cost to planned acquisition cost based on past statistics of recent 1 year by product type. And maintenance fee is based on past statistics of recent 1 year by insurance and insurance contracts.

(Unaudited)

(In millions of won)

22. Other financial liabilities

Other financial liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Insurance payables:			
Dormant policies	₩	36,807	41,563
Insurance settlement adjustments		1,027	924
Reinsurance payables		25,619	43,940
		63,453	86,427
Accounts payable		90,047	118,602
Accrued expenses		148,916	200,400
Leasehold deposits		150,110	150,024
Present value discount		(9,115)	(9,629)
Trust accounts liabilities		4,617	5,518
	₩	448,028	551,342

23. Provisions

Changes in provisions for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017		
		Provision for restoration cost	Litigation	Total
Beginning balance	₩	15,885	414	16,299
Increase		274	-	274
Provision used		(70)	-	(70)
Provision		-	8	8
Ending balance	₩	16,089	422	16,511

(In millions of won)

23. Provisions (cont'd)

		For the three-month period ended March 31, 2016			
		Provision for restoration cost	Litigation	Others(*)	Total
Beginning balance	₩	15,651	812	8,336	24,799
Increase		438	-	195	633
Provision used		(254)	-	-	(254)
Reversal of provision		-	(27)	(3,000)	(3,027)
Ending balance	₩	15,835	785	5,531	22,151

(*) Other provisions were related to insurance claims by the suicide in the Accidental Death Special Agreement. And, the Company lost a case in Supreme Court judgment on May 12, 2016.

24. Defined benefit obligation

(1) The Company operates defined benefit plan based on compensation for pension for the employees and the period of providing services. The Company has trusted the plan assets of defined benefit obligations at KOOKMIN BANK and others.

Defined benefit plan assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Present value of defined benefit obligation	₩	163,896	158,767
Fair value of plan assets		(131,433)	(140,841)
Recognized liabilities for defined benefit obligation	₩	32,463	17,926

(Unaudited)

(In millions of won)

24. Defined benefit obligation (cont'd)

(2) Changes in the present value of defined benefit obligation for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balances	₩	158,767	179,742
Current service costs		5,011	6,502
Interest expenses		993	1,131
Benefits paid by the plan		(875)	(5,010)
Ending balances	₩	163,896	182,365

(3) Changes in the fair value of plan assets for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Beginning balances	₩	140,841	131,457
Interest income		876	817
Remeasurements		(727)	(292)
Benefit paid by the plan		(9,557)	(5,399)
Ending balances	₩	131,433	126,583

(4) Plan assets as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2016	
		Amount	Ratio (%)	Amount	Ratio (%)
Time deposits	₩	131,433	100	140,841	100

(In millions of won)

25. Other liabilities

Other liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Advance receipts	₩	539	329
Unearned income		9,149	9,654
Withholding		50,058	29,440
Value added tax withhold		2,147	1,575
Unearned insurance premium		148,346	167,417
Others		52,970	-
	₩	263,209	208,415

26. Derivatives

(1) Fair values of derivative instruments as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2016	
		Assets	Liabilities	Assets	Liabilities
Hedge related:					
Currency related:					
Currency forwards	₩	79,828	10,136	2,084	205,903
Currency swaps		268,997	93,132	6,484	525,937
		348,825	103,268	8,568	731,840
Interest rate related:					
Interest rate swaps		-	926	-	3
		348,825	104,194	8,568	731,843
Non-hedge related:					
Currency related:					
Currency forwards		7,685	16,170	1,373	58,517
Currency swaps		2,916	32,321	16,541	71,918
		10,601	48,491	17,914	130,435
Equity related:					
Conversion rights		719	-	715	-
Credit related:					
Credit default swaps		3,685	-	4,515	-
		15,005	48,491	23,144	130,435
Adjustment of credit risk		-	126	-	71
	₩	363,830	152,811	31,712	862,349

(Unaudited)

(In millions of won)

26. Derivatives (cont'd)

(2) Gain or loss on valuation of derivatives for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017			
		Net income		Accumulated other comprehensive income(*)	
		Gain	Loss	Gain	Loss
Hedge related:					
Currency related:					
Currency forwards	₩	257,747	776	7,351	4,903
Currency swaps		666,441	244	71,516	6,294
		924,188	1,020	78,867	11,197
Interest rate related:					
Interest rate swaps		-	-	-	926
		924,188	1,020	78,867	12,123
Non-hedge related:					
Currency related:					
Currency forwards		43,481	2,805	-	-
Currency swaps		21,083	6,637	-	-
		64,564	9,442	-	-
Interest rate related:					
Interest rate swaps		37	-	-	-
Equity related:					
Conversion rights		4	-	-	-
Credit related:					
Credit default swaps		-	830	-	-
		64,605	10,272	-	-
Adjustment of credit risk		5	59	3	-
	₩	988,798	11,351	78,870	12,123

(*) Accumulated other comprehensive income from cash flow hedge before adjustment for income tax effect.

(Unaudited)

(In millions of won)

26. Derivatives (cont'd)

(2) Gain or loss on valuation of derivatives for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

		For the three-month period ended March 31, 2016			
		Net income		Accumulated other comprehensive income(*)	
		Gain	Loss	Gain	Loss
Hedge related:					
Currency related:					
Currency forwards	₩	44,128	1,293	5,514	305
Currency swaps		166,835	24	30,203	13,610
		210,963	1,317	35,717	13,915
Non-hedge related:					
Currency related:					
Currency forwards		16,574	1,491	-	-
Currency swaps		14,142	3,363	-	-
		30,716	4,854	-	-
Equity related:					
Conversion rights		28	-	-	-
Early redemption option		-	69	-	-
		28	69	-	-
Credit related:					
Credit default swaps		-	1,095	-	-
		30,744	6,018	-	-
Adjustment of credit risk		32	54	-	-
	₩	241,739	7,389	35,717	13,915

(*) Accumulated other comprehensive income from cash flow hedge before adjustment for income tax effect.

(In millions of won)

26. Derivatives (cont'd)

(3) Gain or loss on hedging instruments and hedged items that apply fair value hedges for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
		Gain	Loss	Gain	Loss
Hedged items	₩	168	151,197	10,660	45,547
Hedging instruments		157,520	1,020	51,283	7,884

(4) Cash flow hedges

Due to various reasons (i.e. currency swap contracts for cash flow hedges have reached maturity), the effective portion of hedges for the three-month periods ended March 31, 2017 and 2016 realized as gain on valuation of derivative instruments amount to ₩450 million and ₩79 million, respectively, and loss on valuation of derivative instruments amount to ₩107 million and ₩1,322 million, respectively. Meanwhile, the ineffective portion of cash flow hedges recognized as gain and loss for the three-month periods ended March 31, 2017 and 2016 amount to ₩2 million and ₩8 million, respectively.

The maximum expected expiration date of which the Company's cash flows are exposed to fluctuation risk is February 1, 2027 based on derivative instrument contract to which cash flow hedges apply.

(Unaudited)

(In millions of won)

27. Separate accounts

(1) Assets and liabilities of separate accounts as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017		December 31, 2017	
		Assets	Liabilities	Assets	Liabilities
Insurance contract and investment contract with discretionary participating features:					
Retirement insurance	₩	113,412	113,412	115,153	115,153
Variable life insurance		14,472,586	14,472,586	14,000,541	14,000,541
		14,585,998	14,585,998	14,115,694	14,115,694
Investments contract with no discretionary participating features:					
Retirement insurance		2,014	2,008	2,050	2,042
Retirement pension		4,121,658	4,108,467	4,175,149	4,168,761
		4,123,672	4,110,475	4,177,199	4,170,803
Separate accounts receivable		-	(64,477)	-	(52,497)
Separate accounts payable		(249,868)	-	(510,670)	-
	₩	18,459,802	18,631,996	17,782,223	18,234,000

(Unaudited)

(In millions of won)

27. Separate accounts (cont'd)

(2) The statement of financial position of the separate accounts as of March 31, 2017 and December 31, 2016 are as follows:

(a) Insurance contract and investments contract with discretionary participating feature

		March 31, 2017	December 31, 2016
Assets:			
Cash and due from banks	₩	449,835	456,276
Trading assets		13,388,033	12,936,199
Loans		343,504	395,797
Other assets		210,546	182,477
General account credits		194,080	144,945
	₩	14,585,998	14,115,694
Liabilities:			
Other liabilities	₩	89,299	50,328
General account debits		58,208	32,821
		147,507	83,149
Reserve for policy holders		14,438,491	14,032,545
	₩	14,585,998	14,115,694

(b) Investments contract with no discretionary participating feature

		March 31, 2017	December 31, 2016
Assets:			
Cash and due from banks	₩	90,841	93,728
Trading assets		482,390	195,056
Available-for-sale financial assets		3,245,819	3,249,699
Held-to-maturity financial assets		72,543	78,335
Loans		123,372	159,750
Other assets		52,920	34,905
General account credits		55,787	365,726
	₩	4,123,672	4,177,199
Liabilities			
Other liabilities	₩	23,894	45,676
General account debits		6,269	19,676
		30,163	65,352
Reserve for policy holders		4,080,312	4,105,451
Accumulated other comprehensive income		13,197	6,396
		4,093,509	4,111,847
	₩	4,123,672	4,177,199

(In millions of won)

27. Separate accounts (cont'd)

(3) The statement of income of the separate accounts for the three-month periods ended March 31, 2017 and 2016 are as follows:

(a) Insurance contract and investments contract with discretionary participating feature

		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
		Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:					
Premium income	₩	-	726,104	-	724,327
Interest income		366	38,455	358	36,530
Dividend income		-	5,784	-	5,357
Gain on securities		137	458,478	162	329,942
Gain on foreign currency transaction		-	38	-	163
Gain on transaction of derivatives		-	28,013	-	32,120
Other income		-	6,657	-	10,289
	₩	503	1,263,529	520	1,138,728
Expenses:					
Increase (decrease) in policy reserves	₩	(1,580)	432,470	(3,088)	307,060
Insurance claims paid		1,905	508,520	3,384	408,320
Minimum guarantee fee		-	17,822	-	15,835
Separate account commission		173	178,887	189	182,395
Commission fee		-	9,313	-	10,061
Provision (reversal of) for loan losses		-	(13)	-	40
Loss on securities		5	96,339	35	183,232
Loss on foreign currency transaction		-	48	-	41
Loss on transaction of derivatives		-	19,327	-	31,600
Other expenses		-	816	-	144
	₩	503	1,263,529	520	1,138,728

(In millions of won)

27. Separate accounts (cont'd)

(3) The statement of income of the separate accounts for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

(b) Investments contract with no discretionary participating feature

		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
		Guaranteed interest contracts	Investment linked contracts	Guaranteed interest contracts	Investment linked contracts
Revenues:					
Interest income	₩	18,198	119	21,095	110
Dividend income		3,151	5	372	10
Gain on securities		5,322	2,262	9,231	781
Gain on foreign currency transaction		52	-	82	-
Gain on transaction of derivatives		31,309	29	10,674	106
Other income		1,035	1	974	1
	₩	59,067	2,416	42,428	1,008
Expenses:					
Interest expenses of withholdings	₩	13,776	1,631	16,724	601
Separate account commission		8,014	574	13,291	(516)
Commission fee		3	26	16	23
Provision for loan losses		18	-	89	-
Loss on securities		5,800	160	1,065	819
Loss on foreign currency transaction		2,560	-	83	-
Loss on transaction of derivatives		11	25	495	81
Other expenses		28,885	-	10,665	-
	₩	59,067	2,416	42,428	1,008

(4) In accordance with the regulations under Trust Business Act, the Company separately accounts for the trust assets from existing assets, and recognizes trust commission fee as operating revenue when receiving trust commission fee. As of March 31, 2017, the total amount of the trust funds under contract with the Company is ₩5,068,048 million.

(Unaudited)

(In millions of won, except shares and par value per share)

28. Equity

(1) Equity as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Capital Stock:			
Common stock	₩	102,500	102,500
Capital surplus:			
Share premium		359,937	359,937
Asset revaluation surplus		70,425	70,425
Others		1,498	1,497
		431,860	431,859
Capital adjustments:			
Loss on valuation of investments using equity method		(8,995)	(8,995)
Accumulated other comprehensive income, net of tax:			
Gain on valuation of available-for-sale financial assets		341,289	342,854
Gain on valuation of derivatives		50,595	51,615
Gain on valuation of investment of associates and subsidiaries		1,644	1,327
Other comprehensive income of separate account		10,002	4,848
Gain on valuation of held-for-maturity financial assets		49,618	51,423
Gain on revaluation of property and equipment		525,242	521,494
Remeasurement gain (loss) related to defined benefit plan		(396)	155
		977,994	973,716
Retained earnings:			
Legal reserve		51,250	51,250
Regulatory reserve for loan loss		123,542	113,176
Retained earnings		5,849,833	5,757,742
Voluntary reserve		3,000	3,000
		6,027,625	5,925,168
	₩	7,530,984	7,424,248

(2) Capital stock

Capital stock as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Number of authorized shares		100,000,000 shares	100,000,000 shares
Par value per share in won	₩	5,000	5,000
Number of issued common stocks outstanding		20,500,000 shares	20,500,000 shares
Capital stock	₩	102,500	102,500

(Unaudited)

(In millions of won)

28. Equity (cont'd)

(3) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017							
		Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of investment of associates and subsidiaries	Other comprehensive income (expense) of separate account	Gain (loss) on valuation of held-for-maturity financial assets	Gain (loss) on revaluation of property and equipment	Remeasurement loss related to defined benefit plan	Total
Beginning balance	₩	342,854	51,615	1,327	4,848	51,423	521,494	155	973,716
Fair value evaluation		12,030	(36,284)	493	7,902	-	-	(727)	(16,586)
Realization of income		(21,447)	34,938	-	(1,102)	(4,009)	-	-	8,380
Policyholder's equity adjustment(*)		7,353	-	(75)	-	1,627	4,945	-	13,850
Deferred income tax effects		499	326	(101)	(1,646)	577	(1,197)	176	(1,366)
Ending balance	₩	341,289	50,595	1,644	10,002	49,618	525,242	(396)	977,994

(*) Allocation to policyholder's equity adjustment in the reporting period.

(Unaudited)

(In millions of won)

28. Equity (cont'd)

(3) Accumulated other comprehensive income, (cont'd)

Changes in accumulated other comprehensive income for the three-month periods ended March 31, 2017 and 2016 are as follows, (cont'd):

		For the three-month period ended March 31, 2016							
		Gain (loss) on valuation of available-for-sale financial assets	Gain (loss) on valuation of derivatives	Gain (loss) on valuation of investment of associates and subsidiaries	Other comprehensive income (expense) of separate account	Gain (loss) on valuation of held-for-maturity financial assets	Gain (loss) on revaluation of property and equipment	Remeasurement loss related to defined benefit plan	Total
Beginning balance	₩	490,401	23,815	(74)	19,915	37,011	513,560	(20,047)	1,064,581
Fair value evaluation		186,298	(4,576)	1,872	21,820	-	-	(292)	205,122
Realization of income		(21,767)	(5,108)	(82)	(5,313)	(3,096)	-	-	(35,366)
Policyholder's equity adjustment(*)		(47,832)	-	(343)	-	1,306	5,192	-	(41,677)
Deferred income tax effects		(28,241)	2,396	(350)	(3,995)	433	(1,256)	70	(30,943)
Ending balance	₩	578,859	16,527	1,023	32,427	35,654	517,496	(20,269)	1,161,717

(*) Allocation to policyholder's equity adjustment in the reporting period.

(in millions of won, except per share data)

28. Equity (cont'd)

(4) Retained earnings

(a) Legal reserve
Legal reserve is restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the Company is required 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 not be allocated in cash and may be used to reduce a deficit or may be transferred to capital based on the decision of board of directors.

(b) The dividends amounting to ₩76,875 million for the Company's shareholders as of December 31, 2016 were paid on March 17, 2017 (₩102,500 million as of December 31, 2015).

(c) Regulatory reserve for loan losses

i) Regulatory reserve for loan losses as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Regulatory reserve for loan losses accumulated	₩	123,542	113,176
To be accumulated (reversed)		(3,864)	10,366
Balance	₩	119,678	123,542

ii) Provision for regulatory reserve for loan losses and income adjusted for regulatory reserve are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Profit for the period	₩	179,332	199,449
Provision (reversal of) for regulatory reserve for loan		3,864	(1,144)
Income adjusted for regulatory reserve(*)		183,196	198,305
Basic earnings per share adjusted for regulatory reserve in won		8,936	9,673

(*) Net income adjusted for regulatory reserve above is non-KIFRS financial information. The adjustment amount is calculated under the assumption that provision for regulatory reserve is reflected on the current net income without considering policyholders' equity adjustment and deferred tax effect.

(Unaudited)

(In millions of won)

29. Premium income

Premium income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	586,201	586,857
Death		1,101,859	1,163,551
Endowment		227,712	264,226
		1,915,772	2,014,634
Group insurance:			
Pure protection		26,606	25,673
Savings		2,818	2,963
		29,424	28,636
	₩	1,945,196	2,043,270

30. Reinsurance ceded

(1) Reinsurance assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

		March 31, 2017	December 31, 2016
Reinsurance accounts receivable	₩	24,691	49,255
Reinsurance assets:			
Reserve for unearned premium		4,126	4,001
Reserve for outstanding claims		2,979	3,063
Incurred but not reported		11,913	11,739
		19,018	18,803
	₩	43,709	68,058
Reinsurance accounts payable	₩	25,619	43,940

(Unaudited)

(In millions of won)

30. Reinsurance (cont'd)

(2) Transactions with reinsurance companies incurred for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017			
		Reinsurance expense	Reinsurance claim revenue	Reinsurance commission revenue	Profit (loss) from reinsurance asset
Individual insurance:					
Domestic	₩	24,925	17,547	6,429	(20)
Overseas		396	222	58	61
		25,321	17,769	6,487	41
Group insurance:					
Domestic		298	435	-	174
	₩	25,619	18,204	6,487	215

		For the three-month period ended March 31, 2016			
		Reinsurance expense	Reinsurance claim revenue	Reinsurance commission revenue	Profit (loss) from reinsurance asset
Individual insurance:					
Domestic	₩	21,952	15,947	6,051	(322)
Overseas		386	196	128	(22)
		22,338	16,143	6,179	(344)
Group insurance:					
Domestic		289	248	-	(121)
	₩	22,627	16,391	6,179	(465)

(Unaudited)

(In millions of won)

31. Interest income

Interest income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Cash and due from banks	₩	4,877	5,761
Trading assets		-	207
Available-for-sale financial assets		104,441	131,680
Held-to-maturity financial assets		244,787	234,019
Loans		227,621	225,034
Others		2,455	2,050
	₩	584,181	598,751

32. Gain on valuation and disposal of financial instruments

Gain on valuation and disposal of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Trading assets:			
Gain on valuation	₩	1,272	1,488
Gain on disposal		728	846
Available-for-sale financial assets:			
Gain on disposal		64,036	52,038
Held-to-maturity financial assets:			
Gain on disposal		676	17
Loans:			
Gain on disposal		27	18
Gain on reversal of allowance for bad debts		840	-
Derivatives:			
Gain on valuation		988,798	241,739
Gain on disposal		16,203	5,839
	₩	1,072,580	301,985

(Unaudited)

(In millions of won)

33. Fees and commission income

Fee and commission income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Credit placement fees	₩	5,362	4,282
Loan transaction fees		128	14
Management fees of retirement pension		272	250
Mortgage fees		356	420
Sales commissions on beneficiary certificates		685	564
Others		914	515
	₩	7,717	6,045

34. Dividend income

Dividend income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Available-for-sale financial assets:			
Equity securities	₩	36,948	36,602
Equity investments		-	2,886
Beneficiary certificates		63,864	47,968
Overseas securities		13,259	12,213
	₩	114,071	99,669

35. Other operating income

Other operating income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Gain on restoration:	₩	75	73

(Unaudited)

(In millions of won)

36. Insurance claims paid

The Company's insurance claims paid consist of benefit payments, surrenders for insurance and dividend expenses.

(1) Benefit payments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	37,311	33,208
Death		121,307	135,010
Endowment		31,958	20,959
		190,576	189,177
Group insurance:			
Pure protection		22,324	17,750
Savings		100	45
		22,424	17,795
	₩	213,000	206,972

(2) Surrenders for insurance for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	495,107	477,621
Death		524,997	495,363
Endowment		144,541	94,918
		1,164,645	1,067,902
Group insurance:			
Pure protection		17,752	19,179
Savings		1,929	1,163
		19,681	20,342
	₩	1,184,326	1,088,244

(Unaudited)

(In millions of won)

36. Insurance claims paid (cont'd)

(3) Dividend expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Individual insurance:			
Pure endowment	₩	4,838	5,006
Death		377	599
Endowment		208	146
		5,423	5,751
Group insurance:			
Pure protection		591	504
Savings		9	-
		600	504
	₩	6,023	6,255

(Unaudited)

(In millions of won)

37. Operating and administrative expenses

Operating and administrative expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Policy acquisition costs:			
Agent commission	₩	113,153	133,821
Branch office operation		15,489	16,125
Sales promotion		20,689	19,734
Advertising expense		1,363	1,207
Others		46,327	47,785
		197,021	218,672
Maintenance expenses:			
Wages and salaries		44,653	46,472
Bonuses		17,254	16,795
Employment benefits		12,998	13,661
Severance benefits		8,718	9,952
Taxes and dues		24,609	25,815
Office rent		16,864	16,989
Depreciation		4,571	4,983
Commission		27,083	19,757
Outsourcing fee		1,440	1,526
Information technology		3,803	3,673
Collection		1,598	1,604
Others		7,074	7,867
		170,665	169,094
Deferred acquisition cost		(157,416)	(173,114)
	₩	210,270	214,652

(In millions of won)

38. Asset management expenses

Asset management expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Wages and salaries	₩	5,021	4,932
Bonuses		2,046	1,815
Severance benefits		913	873
Employment benefits		1,196	1,117
Communication		578	592
Repairs and maintenance		28	33
Outsourcing fee		13,127	12,631
Commission		8,409	7,973
Information technology		850	744
Taxes and dues		199	199
Depreciation		152	182
Others		913	970
	₩	33,432	32,061

39. Interest expense

Interest expense for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Derivatives	₩	362	2,473
Others		2,308	2,334
	₩	2,670	4,807

(Unaudited)

(In millions of won)

40. Loss on valuation and disposal of financial instruments

Loss on valuation and disposal of financial instruments for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Trading assets:			
Loss on valuation	₩	640	131
Loss on disposal		4,090	446
Available-for-sale financial assets:			
Loss on disposal		21,919	19,540
Impairment loss		15,192	1,648
Held-to-maturity financial assets:			
Loss on disposal		-	1
Loans:			
Provision for loan losses		-	619
Derivatives:			
Loss on valuation		11,351	7,389
Loss on disposal		5,059	20,242
Other receivables:			
Provision for other receivables		836	201
	₩	59,087	50,217

(In millions of won and in thousands of USD, EUR, GBP)

41. Other operating expenses

Other operating expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Depreciation of investment properties	₩	2,415	2,312
Amortization of intangible assets		1,610	1,599
Insurance discount		316	312
	₩	4,341	4,223

42. Foreign currency translation

(1) Foreign currency denominated assets and liabilities as of March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017			December 31, 2016		
	Amount of foreign currency		Amount of translation	Amount of foreign currency		Amount of translation
Foreign cash and due from banks:						
USD	595,508	₩	666,016	367,933	₩	444,352
EUR	-		-	419		531
Available-for-sale financial assets:						
USD	2,707,583		3,028,161	2,324,182		2,806,914
EUR	113,348		135,180	109,184		138,402
GBP	3,798		5,289	-		-
Held-to-maturity financial assets:						
USD	8,367,862		9,358,617	8,035,454		9,704,418
Loans						
USD	36,300		40,598	18,000		21,739
Receivables:						
USD	156,718		175,280	141,977		171,466
EUR	98		125	98		125
Total						
USD	11,863,971	₩	13,268,672	10,887,546	₩	13,148,889
EUR	113,446		135,305	109,701		139,058
GBP	3,798		5,289	-		-

(Unaudited)

(In millions of won)

42. Foreign currency translation (cont'd)

(2) Gain (loss) on foreign currency transactions for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Gain on foreign currency translation	₩	4,547	7,280
Gain on foreign currency transaction		2,197	7,034
	₩	6,744	14,314
Loss on foreign currency translation	₩	973,546	234,601
Loss on foreign currency transaction		15,997	3,139
	₩	989,543	237,740

43. Non-operating income and expenses

(1) Non-operating income for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Disposal of investments in subsidiaries and associates	₩	430	2
Dividend of investments in subsidiaries and associates		14,687	13,329
Disposal of investment properties		-	36
Disposal of property and equipment		3	-
Miscellaneous gains		5,863	10,392
	₩	20,983	23,759

(Unaudited)

(In millions of won)

43. Non-operating income and expenses (cont'd)

(2) Non-operating expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Impairment of investments in subsidiaries and associates	₩	10	1,021
Disposal of investments in subsidiaries and associates		11	32
Disposal of property and equipment		44	99
Impairment of property and equipment		-	10
Impairment of intangible assets		1	85
Donations		5,280	5,976
Miscellaneous losses (*)		57,763	954
Others		57	26
	₩	63,166	8,203

(*) Miscellaneous losses as of March 31, 2017 are related to additional reserves for annuity insurance.

44. Income tax expenses

(1) Income tax expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Current income tax expenses	₩	12,480	27,423
Changes in deferred income tax due to temporary differences		39,954	61,540
Income tax expenses recognized in other comprehensive income		(1,366)	(30,943)
Additional refund of income taxes(*)		(879)	(125)
Income tax expenses	₩	50,189	57,895

(*) Including refund amounting to ₩879 million due to the difference in tax after final tax reporting for the three-month period ended March 31, 2017.

(Unaudited)

(In millions of won)

44. Income tax expenses (cont'd)

(2) Income tax expenses calculated by multiplying net income before tax with the tax rate for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Income before income taxes	₩	229,522	257,344
Income taxes at statutory tax rates		55,429	62,162
Adjustments:			
Non-deductible expense (non-taxable income)		(4,361)	(4,142)
Additional refund of income taxes		(879)	(125)
Income tax expenses	₩	50,189	57,895
Effective tax rate		21.87%	22.50%

(In millions of won, except insurance commitment information)

45. Employee benefits

Details of employee benefits for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Short-term and other long-term employee benefits	₩	69,053	69,457
Post-employment benefits(*)		9,631	10,825

(*) Post-employment include ₩1,598 million and ₩1,791 million of termination benefits for the three-month periods ended March 31, 2017 and 2016, respectively, and ₩2,891 million and ₩2,214 million of defined contribution plans for the three-month periods ended March 31, 2017 and 2016, respectively.

46. Commitments and contingencies

(1) Legal contingencies outstanding

There are 129 litigations in which the Company is named including the ones for the payment of insurance claims with litigation costs amounting to ₩6,901 million as of March 31, 2017. Furthermore, there are 27 litigations where the Company is the plaintiff with litigation costs amounting to ₩2,858 million. The outcome of litigations cannot be predicted as of March 31, 2017. The Company has appropriated reserve of ₩6,125 million for the payment of above insurance claim, and provisions of ₩422 million for the payment of general claims.

(2) Insurance commitment

The contract amounts under the insurance contracts in the general and separate accounts as of March 31, 2017 are as follows:

	Number of contract		Total contract amount
General accounts	8,523,673	₩	310,158,688
Separate accounts	759,693		4,193,168
	9,283,366	₩	314,351,856

46. Commitments and contingencies (cont'd)

(3) Reinsurance agreements

The reinsurance agreements of individual and group insurance as of March 31, 2017 are as follows:

Reinsurance method	Reinsurance company	Ceding ratio (%)	Nature of risk
Surplus	SCOR Reinsurance Asia-Pacific	100	Risk from excess number of contracts with individuals with high-risk occupations
Surplus	SCOR Reinsurance Asia-Pacific	100	Risk from excessive contracts
Surplus	Korean Re	100	Kyobo Big Love Guarantee Insurance
Surplus, Quota Share	Munich Re	60	Risk from excessive contracts
Surplus, Quota Share	Korean Re	40	Risk from excessive contracts
Quota Share	GeneralCologne Re	10	Individual medical insurance
Quota Share	GeneralCologne Re	10	Accidental insurance
Quota Share	GeneralCologne Re	30	CI whole life Reinsurance
Quota Share	GeneralCologne Re	30	Second CI Guarantee reinsurance
Quota Share	GeneralCologne Re	30	SI Insurance
Quota Share	Hannover Re	10	CI reinsurance
Quota Share	Hannover Re	10	Direct health insurance
Quota Share	Hannover Re	30	Kyobo cancer insurance
Quota Share	Hannover Re	80	Facultative reinsurance
Quota Share	Hannover Re	10 ~ 25	Individual medical Insurance
Quota Share	Meiji Yasuda Life Insurance	2	Whole life insurance
Quota Share	Meiji Yasuda Life Insurance	25	Direct accidental Insurance
Quota Share	Munich Re	10	CI reinsurance
Quota Share	Munich Re	30	LTC (Silver care insurance)
Quota Share	Munich Re	80	Facultative reinsurance
Quota Share	Munich Re	30	Premier CI Insurance
Quota Share	RGA Re	20	Kyobo cancer insurance
Quota Share	RGA Re	80	Facultative reinsurance
Quota Share	SCOR Reinsurance Asia-Pacific	10	Individual medical Insurance
Quota Share	SCOR Reinsurance Asia-Pacific	15	CI reinsurance
Quota Share	SCOR Reinsurance Asia-Pacific	15	Direct health insurance
Quota Share	SCOR Reinsurance Asia-Pacific	80	Facultative reinsurance
Quota Share	SCOR Reinsurance Asia-Pacific	30 ~ 60	Top Class cancer Insurance
Quota Share	Korean Re	10	CI whole life reinsurance
Quota Share	Korean Re	30	Kyobo cancer Insurance
Quota Share	Korean Re	80	Facultative reinsurance
Quota Share	Korean Re	20 ~ 25	Individual medical Insurance
Quota Share	Korean Re	50	SI Insurance

(Unaudited)

(In millions of won)

46. Commitments and contingencies (cont'd)

(4) As of March 31, 2017, the Company has bank overdraft facility agreements with Standard Chartered Bank, etc with a limit of ₩290,000 million.

(5) Other commitments

Other commitments as of March 31, 2017 are as follows:

		Amount
Loan commitment	₩	1,896,762
Overdraft commitments		2,068,920
	₩	3,965,682

(6) Securities lending and borrowing

Securities lending and borrowing as of March 31, 2017 are as follows:

	Type		Amount	Valuation standard
Securities lent	Debt securities	₩	412,874	Fair value

Securities lending transaction is a transaction that transfers the ownership of the same amount and kind of securities after a certain period of time and continues to be recognized as an asset of the Company because it does not meet the conditions for the removal of transfer of financial assets.

47. Related parties

(1) The related parties as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017

Related parties	Investor
Subsidiaries	
Kyobo Securities Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Book Center Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Hottracks Co., Ltd.	Kyobo Book Center Co., Ltd.
Kyobo Info. & Comm. Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Realco Inc.	Kyobo Life Insurance Co., Ltd.
Jeil Safety Service Co., Ltd.	Kyobo Realco Inc.
KCA Claim Adjustment Co., Ltd.	Kyobo Life Insurance Co., Ltd.
KCA Service Co., Ltd.	KCA Claim Adjustment Co., Ltd.
Kyobo Data Center Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Life Planet Life Insurance Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Life Asset Management (America) Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Life Asset Management (Japan) Co., Ltd.	Kyobo Life Insurance Co., Ltd.
New high yield D2 open end B-1 and others	Kyobo Life Insurance Co., Ltd.
Izys KORIF Private Special Real estate Investment Trust12 and Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	Kyobo Securities Co., Ltd.
Joint Ventures	
Kyobo AXA Investment Managers Co., Ltd, Saeng bo Real Estate Trust Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Associates	
A&D Credit Information Co., Ltd., KoFC KyoboHanhwa2010-6, Trus Y 7 REIT Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Others	
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture	Kyobo Life Insurance Co., Ltd.
Kyobo 5 Special Purpose Acquisition Company, Kyobo BNK Special Purpose Acquisition Company, Hwaseong-Jeongnam General Industry Complexes Co., Ltd. Kyobo 7 Special Purpose Acquisition Company(*)	Kyobo Securities Co., Ltd.
I2S Korea Co., Ltd.,	Kyobo Info. & Comm. Co., Ltd.
Lifenet Life Insurance Co., Ltd.	Kyobo Life Planet Life Insurance Co., Ltd.

(*) Kyobo 7 Special Purpose Acquisition Company was newly included in related parties, on the other hand Kocref No.14 REIT Co., Ltd. was excluded from the related parties for the three-month periods ended March 31, 2017.

47. Related parties (cont'd)

(1) The related parties as of March 31, 2017 and December 31, 2016 are summarized as follows, (cont'd):

December 31, 2016

Related parties	Investor
Subsidiaries	
Kyobo Securities Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Book Center Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Hottracks Co., Ltd.	Kyobo Book Center Co., Ltd.
Kyobo Info. & Comm. Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Realco Inc.	Kyobo Life Insurance Co., Ltd.
Jeil Safety Service Co., Ltd.	Kyobo Realco Inc.
KCA Claim Adjustment Co., Ltd.	Kyobo Life Insurance Co., Ltd.
KCA Service Co., Ltd.(*)	KCA Claim Adjustment Co., Ltd.
Kyobo Data Center Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Life Planet Life Insurance Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Life Asset Management (America) Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Kyobo Life Asset Management (Japan) Co., Ltd.(*)	Kyobo Life Insurance Co., Ltd.
New high yield D2 open end B-1 and others	Kyobo Life Insurance Co., Ltd.
Izys KORIF Private Special Real estate Investment Trust12 and Lyxor GREAT-GWANGGAETO Multi-Strategy Fund PC	Kyobo Securities Co., Ltd.
Joint Ventures	
Kyobo AXA Investment Managers Co., Ltd, Saeng bo Real Estate, Trust Co., Ltd.	Kyobo Life Insurance Co., Ltd.
Associates	
A&D Credit Information Co., Ltd., Kocref No.14 REIT Co., Ltd., Trus Y 7 REIT Co., Ltd., KoFC KyoboHanhwa2010-6	Kyobo Life Insurance Co., Ltd.
Others	
Daesan Foundation For Rural Culture & Society, Daesan Foundation For Culture, Kyobo Foundation Building, Kyobo Foundation For Education & Culture	Kyobo Life Insurance Co., Ltd.
Kyobo 5 Special Purpose Acquisition Company, Kyobo BNK Special Purpose Acquisition Company(*), Hwaseong-Jeongnam General Industry Complexes Co., Ltd.	Kyobo Securities Co., Ltd.
I2S Korea Co., Ltd.,	Kyobo Info. & Comm. Co., Ltd.
Lifenet Life Insurance Co., Ltd.	Kyobo Life Planet Life Insurance Co., Ltd.

(*) Kyobo Life Asset Management (Japan) Co., Ltd., KCA Service Co., Ltd. and Kyobo BNK Special Purpose Acquisition Company were newly included in related parties, on the other hand Kyobo 4 Special Purpose Acquisition Company, Mastern 2 REIT were excluded from the related parties for the year ended December 31, 2016.

(In millions of won)

47. Related parties (cont'd)

(2) Significant balances with the related parties as of March 31, 2017 and December 31, 2016 are summarized as follows:

Related party	Account		March 31, 2017	December 31, 2016
Subsidiaries				
Kyobo Securities Co., Ltd.	Accounts receivables	₩	1	5
	Accounts payable		1	9
	Deposits		6,239	3,516
	Leasehold deposits received		3,091	3,382
	Retirement pension(*)		30,096	30,339
Kyobo Book Center Co., Ltd.	Accounts receivables		155	1
	Accounts payable		21	3
	Leasehold deposits received		16,696	16,696
	Retirement pension(*)		31,531	31,993
Kyobo Hottracks Co., Ltd.	Leasehold deposits received		7,589	7,589
	Retirement pension(*)		15,796	15,866
Kyobo Info. & Comm Co., Ltd.	Accounts receivables		3	1
	Accounts payable		1,340	1,285
	Retirement pension(*)		4,261	4,278
Kyobo Realco Inc.	Accounts receivables		26	269
	Accounts payable		16	349
	Leasehold deposits received		71	71
	Retirement pension(*)		11,550	11,702
KCA Claim Adjustment Co., Ltd.	Accounts payable		3	-
	Accounts payable		2,198	3,284
	Leasehold deposits received		511	511
	Retirement pension(*)		8,454	8,443
Jeil Safety Service Co., Ltd.	Accounts receivables		1	1
	Accounts payable		1	1
	Retirement pension(*)		2,524	2,091
Kyobo Life Planet Life Insurance Co., Ltd.	Retirement pension(*)		740	778
Associates				
A&D Credit Information Co., Ltd.	Accounts payable		741	742
	Retirement pension(*)		1,013	1,009
Joint Ventures				
Kyobo AXA Investment Managers Co., Ltd.	Accounts payable		764	93
	Leasehold deposits received		784	784
	Retirement pension(*)		219	218
Saeng bo Real Estate Trust Co., Ltd.	Accounts receivables		1	3
	Accounts payable		1	2
	Retirement pension(*)		3,507	3,491

(Unaudited)

(In millions of won)

47. Related parties (cont'd)

(2) Significant balances with the related parties as of March 31, 2017 and December 31, 2016 are summarized as follows (cont'd):

Related party	Account		March 31, 2017	December 31, 2016
Others				
Daesan Foundation For Rural Culture & society	Retirement insurance(*)	₩	169	169
Daesan Foundation For Culture	Leasehold deposits		1,346	1,346
	Retirement pension(*)		321	321
	Credit purchase		-	15
Kyobo Foundation For Education & Culture	Retirement pension(*)		250	248
Major management	Loans		43	57

(*) Retirement insurance and pension are reserves of policyholders included in separate account liabilities.

(Unaudited)

(In millions of won)

47. Related parties (cont'd)

(3) Significant transactions with the related parties for the three-month periods ended March 31, 2017 and 2016 are as follows:

Related party	Account		2017 Revenues	2017 Expenses	2016 Revenues	2016 Expenses
Subsidiaries						
Kyobo Securities Co., Ltd.	Dividend income	₩	3,160	-	2,788	-
	Rental income		48	-	48	-
	Premium income(*2)		1	-	3	-
	Claim paid(*2)		-	139	-	133
	Fee and commission expense(*1)		-	756	-	848
Kyobo Book Center Co., Ltd.	Dividend income		151	-	151	-
	Rental income		1,536	-	1,347	-
	Premium income(*2)		136	-	113	-
	Other income		3	-	5	-
	Non-operating income		1	-	2	-
	Claim paid(*2)		-	144	-	128
	Operating and Administrative expenses		-	410	-	437
	Asset management expenses		-	7	-	6
Kyobo Hottracks Co., Ltd.	Rental income		732	-	647	-
	Premium income(*2)		2	-	-	-
	Other income		1	-	1	-
	Operating and Administrative expenses		-	45	-	62
	Claim paid(*2)		-	70	-	70
	Asset management expenses		-	4	-	3
Kyobo Info. & Comm. Co., Ltd.	Premium income(*2)		1	-	1	-
	Dividend income		90	-	-	-
	Other income		1	-	1	-
	Claim paid(*2)		-	19	-	18
	Operating and Administrative expenses		-	1,452	-	1,792
	Asset management expenses		-	887	-	343
Kyobo Realco Inc.	Dividend income		200	-	500	-
	Premium income(*2)		4	-	3	-
	Rental income		31	-	31	-

(In millions of won)

47. Related parties (cont'd)

(3) Significant transactions with the related parties for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

Related party	Account		2017 Revenues	2017 Expenses	2016 Revenues	2016 Expenses
Subsidiaries, cont'd						
	Other income	₩	2	-	2	-
	Claim paid(*2)		-	52	-	49
	Operating and Administrative expenses		-	1,425	-	1,677
	Asset management expenses		-	8,883	-	8,462
	Rental expense		-	26	-	40
KCA Claim Adjustment Co., Ltd.	Other income		1	-	1	-
	Premium income(*2)		-	-	1	-
	Rental income		137	-	139	-
	Operating and Administrative expenses		-	6,588	-	5,984
	Claim paid(*2)		-	39	-	42
KCA Service Co., Ltd.	Rental income		798	-	-	-
	Operating and Administrative expenses		-	7,248	-	-
Jeil Safety Service Co., Ltd.	Premium income(*2)		11	-	9	-
	Other income		1	-	1	-
	Claim paid(*2)		-	11	-	12
Kyobo Data Center Co., Ltd.	Dividend income		720	-	720	-
	Rental expense		-	735	-	548
Kyobo Life Planet Life Insurance Co., Ltd.	Other income		1	-	1	-
	Claim paid(*2)		-	4	-	2
Consus BTL Private Special Asset Investment Trust 1	Dividend income		219	-	226	-
Consus Hope BTL Private Special Asset Investment Trust1	Dividend income		317	-	327	-
Consus New Energy Private Special Asset Investment Trust2	Dividend income		324	-	517	-
KIAMCO Shipping Private Special Asset Investment Trust KX-1	Dividend income		203	-	200	-
KIAMCO Kirishima Solar Energy Private Equity Special Asset Investment Trust	Dividend income		434	-	685	-

(In millions of won)

47. Related parties (cont'd)

(3) Significant transactions with the related parties for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

Related party	Account		2017 Revenues	2017 Expenses	2016 Revenues	2016 Expenses
Associates						
Kocref No.14 REIT Co., Ltd.	Provision for loan losses	₩	-	-	1	-
	Dividend income		60	-	419	-
	Interest income		-	-	258	-
A&D Credit Information Co., Ltd.	Dividend income		59	-	49	-
	Claim paid(*2)		-	5	-	7
	Asset management expenses		-	1,918	-	1,883
	Operating and Administrative expenses		-	71	-	53
Trus Y 7 REIT CO., Ltd.	Dividend income		-	-	27	-
KoFC KyoboHanhwa2010-6	Dividend income		-	-	721	-
MASTERN 2 REIT	Interest income		-	-	643	-
	Provision for loan losses		-	-	11	-
Joint Ventures						
Saengbo Real Estate Trust Co., Ltd.	Dividend income		5,000	-	3,000	-
	Premium income(*2)		1	-	1	-
	Claim paid(*2)		-	16	-	14
Kyobo AXA Investment Managers Co., Ltd.	Premium income(*2)		2	-	2	-
	Dividend income		3,750	-	3,000	-
	Rental income		348	-	348	-
	Other income		1	-	1	-
	Claim paid(*2)		-	1	-	1
	Asset management expenses		-	764	-	988
Others						
Kyobo Foundation For Education & Culture	Non-operating expenses		-	265	-	245
	Claim paid(*2)		-	1	-	1
Kyobo Foundation Building	Rental expense		-	-	-	58
Daesan Foundation For Rural Culture & Society	Non-operating expenses		-	100	-	100
	Claim paid(*2)		-	1	-	1

(In millions of won)

47. Related parties (cont'd)

(3) Significant transactions with the related parties for the three-month periods ended March 31, 2017 and 2016 are as follows (cont'd):

Related party	Account	2017 Revenues	2017 Expenses	2016 Revenues	2016 Expenses
Others, cont'd					
Daesan Foundation	Premium income(*2)	2	-	1	-
	Rental income	14	-	14	-
	Claim paid(*2)	-	1	-	1
	Non-operating expenses	-	550	-	550
	Operating and administrative expenses	-	15	-	18

(*1) Commission in separate accounts for the three-month periods ended March 31, 2017 and 2016 amount to ₩600 million and ₩662 million, respectively.
(*2) Premium income and claims paid belong to profit or loss in separate account.

(4) The assets transaction with the related parties for the three-month periods ended March 31, 2017 and 2016 are summarized as follows:

Related party	Account		For the three-month period ended March 31, 2017		For the three-month period ended March 31, 2016	
			Acquisition	Disposition	Acquisition	Disposition
Kyobo Realco Inc.	Construction in progress	₩	-	-	150	-
Kyobo Data Center Co., Ltd.	Development expense		194	-	-	-

(5) The fund transactions with the related parties for the three-month periods ended March 31, 2017 are as follows:

Related party		For the three-month period ended March 31, 2017		
		Loan transaction		Collection of investment
		Lending	Collection	
Kocref No.14 REIT Co., Ltd.	₩	-	-	(4,607)

There were no fund transactions with the related parties for the three-month period ended March 31, 2016.

(Unaudited)

(In millions of won)

47. Related parties (cont'd)

(6) The Company concluded that the key management includes executives and outside directors who have authority and responsibilities for decision making of the business plan, operations and control over the Company. Key management compensation for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Long and short-term employee benefits	₩	4,367	4,938
Retirement benefits		1,333	1,013
	₩	5,700	5,951

(7) The above outstanding balances and transactions have arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

(Unaudited)

(In millions of won, except per share data)

48. Earnings per share

Basic earnings per share for the three-month periods ended March 31, 2017 and 2016 are as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Net income available for common stock	₩	179,332	199,449
Weighted average number of common shares outstanding		20,500,000 shares	20,500,000 shares
Earnings per share in won		8,748	9,729

The Company's basic earnings per share and diluted earnings per share are the same since there are no potential diluted shares for the three-month periods ended March 31, 2017 and 2016.

49. Statement of cash flows

Significant non-cash activities for the three-month periods ended March 31, 2017 and 2016 are summarized as follows:

		For the three-month period ended March 31, 2017	For the three-month period ended March 31, 2016
Changes in valuation gain (loss) on available-for-sale financial assets	₩	(1,563)	88,458
Transfer between investment property and property and equipment		30,122	1,460
Replacement to non-current assets held-for-sale		4,954	-
Changes in valuation loss on valuation of held-to-maturity financial assets		(1,805)	(1,357)
Changes in valuation gain on revaluation of property and equipment		3,747	3,935
Changes in valuation loss on derivatives for cash flow hedging purpose		(1,021)	(7,289)
Other comprehensive income in separate accounts		5,155	12,512
Write-off and others		4,204	4,352

REGISTERED OFFICE AND HEAD OFFICE OF THE ISSUER

Kyobo Life Insurance Co., Ltd.
Kyobo Life Building
1, Jong-ro, Jongno-gu
Seoul 03154, Korea

INITIAL PURCHASERS

Citigroup Global Markets Inc.
388 Greenwich Street
New York, NY 10013
United States of America

J.P. Morgan Securities plc
25 Bank St.
Canary Wharf
London E14 5JP
United Kingdom

Nomura International plc
1 Angel Lane
London EC4R 3AB
United Kingdom

UBS AG, Hong Kong Branch
52/F
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Kyobo Securities Co., Ltd.
97, Uisadang-daero, Yeungdeungpo-gu
Seoul 07327, Korea

LEGAL ADVISERS TO THE ISSUER

As to English law
Cleary Gottlieb Steen & Hamilton LLP
37th Floor, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

LEGAL ADVISERS TO THE INITIAL PURCHASERS

As to English law
Clifford Chance LLP
(Foreign Legal Consultant Office)
22nd Floor, D1 Tower
17, Jongno-3 gil, Jongno-gu
Seoul 03155, Korea

As to Korean law
Yulchon LLC
12th Floor, Textile Center
518 Teheran-ro
Gangnam-gu
Seoul 06180, Korea

INDEPENDENT AUDITORS OF THE ISSUER

Ernst & Young Han Young
Taeyoung Building
111 Yeouigongwon-ro
Yeongdeungpo-gu
Seoul 07241, Korea

KPMG Samjong
27th Floor, Gangnam Finance Center
152 Teheran-ro
Gangnam-gu
Seoul 06236, Korea

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP
1 Robinson Road
#18-00 AIA Tower
Singapore 048542

KYOBO

Kyobo Life Insurance Co., Ltd.

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